Annual Report | 2011/12

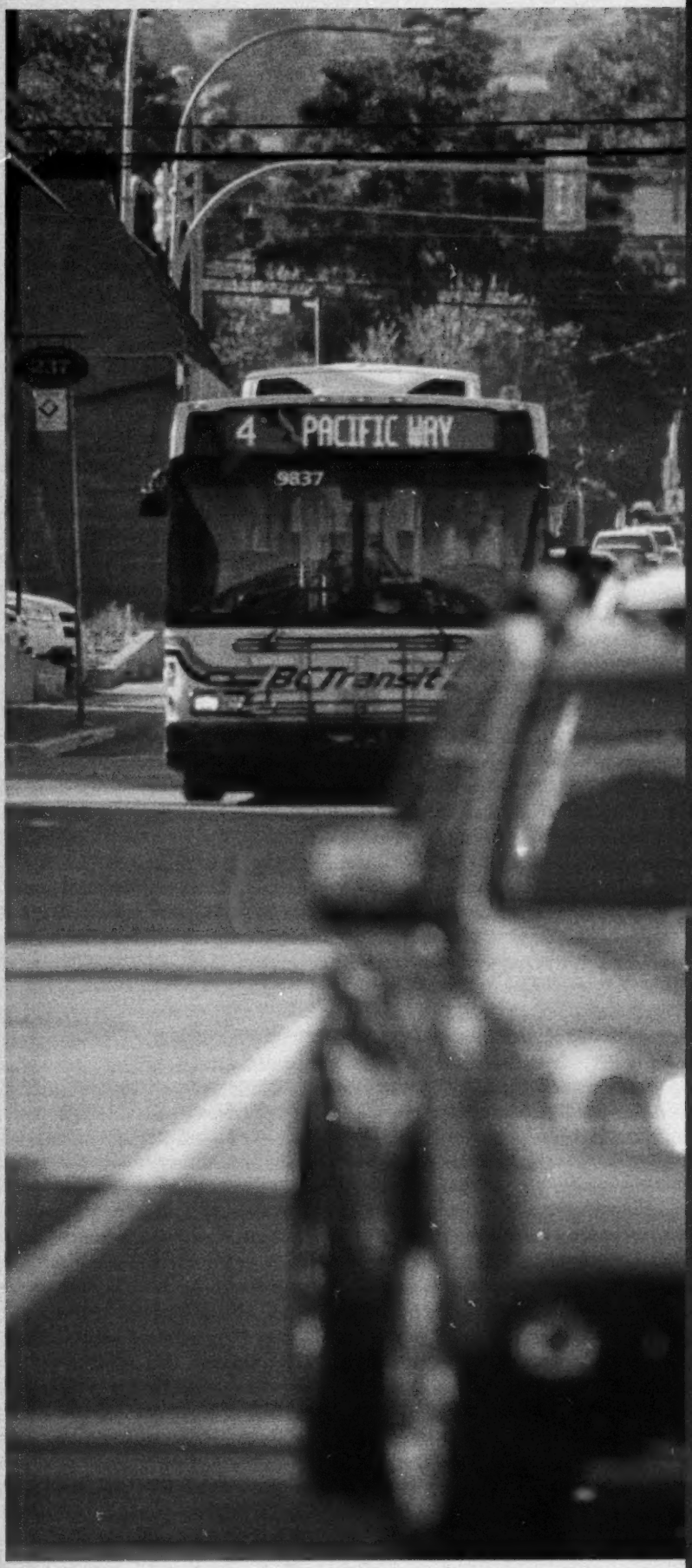
BCTransit

His Honour

The Honourable Steven L. Point
Lieutenant-Governor of the
Province of British Columbia

May it please Your Honour,
I respectfully submit the
Annual Report of BC Transit
for the fiscal year ended March 31, 2012.

The Honourable Blair Lekstrom
Minister of Transportation and Infrastructure,
and Minister responsible for BC Transit



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Message from the Chair to the Minister Responsible

Honourable Blair Lekstrom

Minister of Transportation and Infrastructure and Minister Responsible for BC Transit

In 2011/12, BC Transit continued to attract more customers in communities throughout the province, despite flat or declining growth in transit systems across North America. Ridership statistics rose again to record levels, with BC Transit carrying British Columbians on 51.6 million trips. This is 3.0 per cent higher than target and, 0.7 per cent higher than the previous fiscal year.

This ridership increase is notable since the 2.2 million service hours delivered were 2.8 per cent below target, due to local government funding constraints which delayed expansions or reduced service in a number of systems. BC Transit's ongoing work to review and improve transit system performance ensured that each provided hour generated the maximum possible ridership.

While ridership increased by 0.7 per cent year over year, substantial gains were made on revenue. Passenger and advertising revenues were $67.8 million, a 4.2 per cent increase over fiscal 2010/11 and a 1.6 per cent increase over target. Revenue gains were related to fare structure reviews, pricing changes in a number of systems and, innovative strategies to increase pass sales and reduce fare fraud.

BC Transit faced many issues in 2011/12 related to the continuing global economic uncertainty. Industry wide cost pressures including capital replacement, fuel, labour and maintenance continue to put strain on costs and the ability of local funding partners to meet demand for increased public transit services. However, BC Transit continues to benchmark favourably to its peers across Canada.

Budgeted expenditures for 2011/12 were based on overall planned service expansion of 3.7 per cent. Due primarily to lower than anticipated growth in service hours across the province, total expenditures for the fiscal year were lower than budget by $15.5 million or 5.6 per cent. Costs increased by $9.7 million year over year due to the service expansion that did occur, capital asset replacements and inflationary operating cost pressures such as fuel.

The organization worked hard to balance support of The *Provincial Transit Plan* and provincial Climate Action goals, with decreased local government capacity to fund new commuter/regional services and increased passenger demand for additional service and real time information. To meet these challenges, BC Transit conducted an internal review of operations and staffing, which resulted in a number of efficiencies. In collaboration with its partners, BC Transit also undertook a major process review which identified a number of opportunities for further efficiencies.

Our focus for 2012/13 will be on the Independent Review of BC Transit, increasing ridership, revenue generation and efforts to improve system performance and cost containment. This will allow us to continue to deliver affordable and quality transportation to the people of British Columbia.

Kevin Mahoney
Chair

Accountability Statement

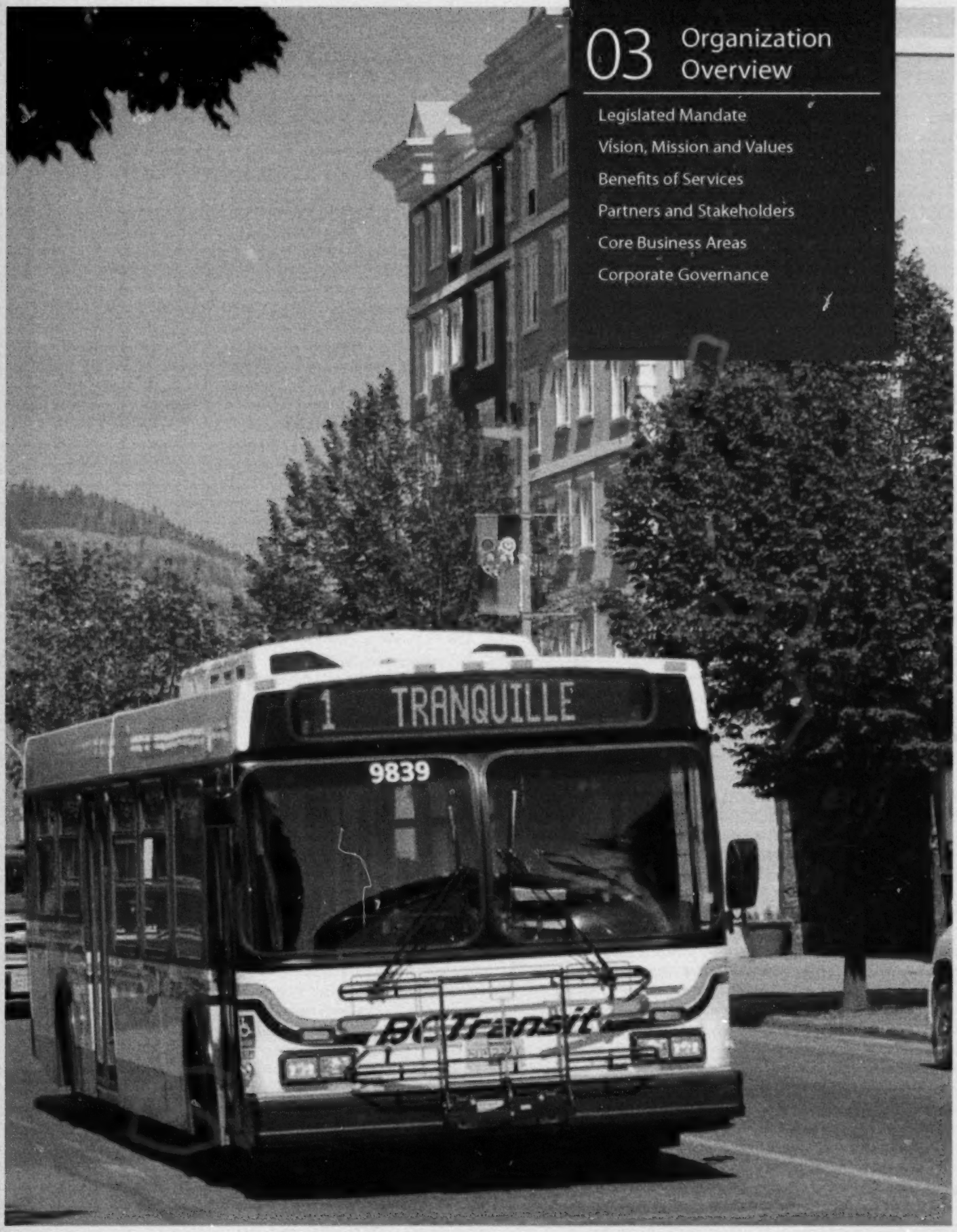
BC Transit's 2011/12 Annual Report was prepared under the direction of the BC Transit Board of Directors (the "Board") in accordance with the *Budget Transparency and Accountability Act* and the *B.C. 2011/12 Crown Corporation Annual Report Guidelines*. The information presented was prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of BC Transit's actual performance for the 12 months ended March 31, 2012 in relation to its 2011/12 – 2013/14 Service Plan. To present an even more comprehensive picture, performance is also compared with additional measures included in the 2012/13 – 2014/15 Service Plan.

The Board is accountable for the contents of the report, including the selection of performance measures and how results have been reported. The measures presented are consistent with BC Transit's goals and objectives, and focus on aspects critical to the organization's performance.

This report contains estimates and interpretive information that represent the best judgment of management. The Board is responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant assumptions, policy decisions, events and identified risks, as of March 31, 2012 have been considered in preparing the report. Any changes in mandate, direction, goals, strategies, measures or targets made since the 2011/12 – 2013/14 Service Plan was released and any significant limitations in the reliability of data are identified in the report.

Kevin Mahoney
Chair



03 Organization Overview

Legislated Mandate

Vision, Mission and Values

Benefits of Services

Partners and Stakeholders

Core Business Areas

Corporate Governance

Organization Overview

Legislated Mandate

BC Transit is the provincial Crown agency charged with coordinating the delivery of public transportation across British Columbia with the exception of those areas serviced by TransLink (Metro Vancouver).

According to the *British Columbia Transit Act* (Section 3.1), BC Transit has a mandate to:

> "... plan, acquire, construct or cause to be constructed public passenger transportation systems and rail systems that support regional growth strategies, official community plans, and the economic development of transit service areas, [and] to provide for the maintenance and operation of those systems."

BC Transit's activities include planning, financial management, marketing, asset management, supply chain management, the provision of safety and human resources expertise and contracting for the operation of transit services. BC Transit also operates the Victoria Regional Transit System.

The funding of transit service is provided by customer fares and through a partnership of local governments and the Province through BC Transit.

BC Transit's headquarters is located in Victoria, British Columbia.

Vision, Mission and Values

The BC Transit Strategic Plan — *Shaping our Future* — establishes the vision, mission, values and strategic objectives needed to accomplish the provincial government goals outlined in *The Provincial Transit Plan*.

With the participation of employees and the Board, BC Transit refined the original expression of its vision, mission and definition of values in 2011/12 to make the statements more concise.

VISION

To connect people and communities to a more sustainable future.

MISSION

Through the strength of our people and partners, we provide safe, effective and efficient customer-focused transportation solutions.

VALUES

Safety – We will ensure the safety of our employees, customers and transit systems.

Customer Service – We will work with our customers to meet their needs and exceed their expectations.

Sustainability – We will continuously improve and be accountable for our financial, environmental and social results.

Integrity – As stewards of public resources, we will use our assets prudently and conduct ourselves honestly and respectfully.

Innovation – We will pursue opportunities to enhance value for our customers.

Collaboration – We will cultivate strong partnerships, community connections and links to other types of travel.

Benefits of Services to British Columbia

BC Transit's services connect people, communities and businesses across the province through cost-effective, sustainable public transit. These services contribute to government objectives and deliver public benefit in four key areas:

- Contributing to the economic, social and environmental sustainability of the province's communities through efficient and effective public transit;
- Increasing the mobility of the aging population and providing improved transit to support aging in place;
- Supporting rural and First Nations communities by linking them to regional services; and
- Supporting the achievement of climate change initiative goals.

To ensure the continued delivery of these benefits, the following five long-term objectives form the foundation of the BC Transit Strategic Plan and are used to guide business activities:

Develop Financial Sustainability – Ensure the long term viability of transit by systematically renewing and revising revenue sources, structures, and internal processes.

Support and Shape Livable Communities – Encourage transit-supportive community planning and development to facilitate movements by walking, cycling and transit.

Change the Perception of Transit – Target transit messaging and advocacy to build public support and attract customers.

Deliver Operational Excellence – Deliver safe, reliable, easy to use services that continuously improve through active public engagement.

Strengthen our Accountability, People and Partnerships – Create an adaptable, socially responsible organization that lives its values, develops its existing employees and partnerships, and attracts new people and opportunities.

These objectives frame the strategies and initiatives presented in BC Transit's provincial Service Plans and the performance measured in this annual report.

Partners and Stakeholders

BC Transit works with its funding partners, the Provincial and local governments, to deliver transit services in communities throughout British Columbia. Stakeholders include customers, local governments, the Ministry of Transportation and Infrastructure and other Provincial ministries, operating companies, First Nations communities, health authorities, post-secondary institutions, major employers, school districts, resident's associations, recreational facilities and others.

Funding for transit is shared between the local governments and the Province and the sharing formula is defined by regulation. These regulations set the funding formula for both conventional transit (i.e., local bus service) and custom transit (also known as handyDART service).

BC Transit's funding and governance is legislated under the *British Columbia Transit Act* which defines the roles and responsibilities for the respective parties involved in the delivery of transit services.

In the Capital Regional District (CRD), BC Transit operates the regional transit system and local governance responsibilities are provided by the Victoria Regional Transit Commission (the "Commission"), a board of provincially-appointed local government representatives. The Commission makes decisions regarding service priorities, fares and local taxation for transit purposes.

In other parts of the province, BC Transit contracts service delivery to operating companies—including local government, not-for-profits, and independent businesses—based on operating agreements. Services are formalized through a Transit Service Agreement and two operating agreements which are approved by local governments and the operating company: a Master Operating Agreement (MOA) and an Annual Operating Agreement (AOA). BC Transit oversees operations to ensure service delivery targets are achieved.

Sponsoring local governments provide a portion of funding for transit systems, approve service levels and fare structures, maintain transit infrastructure such as bus stops and shelters, and help promote ridership.

Operating companies contracted by BC Transit are responsible for delivering services specified in local operating agreements, providing trained staff to meet operating standards for safety and quality, and managing labour relations.

The scope of BC Transit's program as of March 31, 2012:

- Provides services to over 130 communities across B.C. in collaboration with 58 local government funding partners, including the Victoria Regional Transit Commission and regional health authorities
- Has contracts with 18 private operating companies, 5 public operating organizations and 14 non-profit agencies
- Carried 51.6 million passenger trips in 2011/12
- Serves more than 1.5 million people in B.C.
- Operates 81 transit systems – conventional, custom and paratransit
- Owns a fleet of 1,001 conventional and double-deck buses, minibuses and vans
- Total expenditures in 2011/12 of $262 million

Communities served by BC Transit are highlighted on the System Map, which can be found in Appendix 6 of this report.

Core Business Areas

BC Transit's core business is the delivery of public transit services. This includes:

Conventional transit which serves the general population in urban settings and offers scheduled bus service that operates on fixed routes. All vehicles are accessible and range in size from minibuses to double-deck buses to best match ridership and community needs. In 2011/12, conventional transit services managed by BC Transit carried 49.3 million passenger trips, up 0.6 per cent from the previous year.

Custom transit which employs vans, minibuses and taxis to deliver dial-a-ride and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit. Contracted taxi supplement and taxi saver (discounted coupon) programs offer additional flexible service to complement custom transit and adapt to customer needs. Custom transit carried 1.1 million passenger trips in 2011/12, up 2.3 per cent from the previous year.

Paratransit, which serves small town, rural and First Nations communities as well as some suburban areas using minibuses, taxis and vans for flexible routing and schedules. In 2011/12, paratransit provided 1.2 million passenger trips, up 7.2 per cent from the previous year.

No shifts were made to the core business areas or program delivery over the previous year.

Corporate Governance

Pursuant to the *British Columbia Transit Act*, as a provincial Crown Corporation BC Transit and its Board of Directors are accountable to Government.

Government, as the representative of the public at large, is the sole shareholder of BC Transit. The Province establishes guiding principles for the governance of its Crown agencies and its annual Letter of Expectations records a joint understanding between Government and BC Transit over its mandate, public policy issues, strategic priorities and performance.

BOARD OF DIRECTORS

BC Transit is governed by a seven member Board of Directors appointed by the Province through the Lieutenant Governor in Council according to the *British Columbia Transit Act* (Section 4.1). The *Act* requires four of the Board members to be municipally elected representatives. The Board of Directors (the "Board"), through the Chair, reports to the Minister of Transportation and Infrastructure (designated as the Minister responsible for BC Transit).

The Board is governed according to the Province of B.C.'s *Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations ("Best Practices Guidelines")*, as noted on the BC Transit website.[1] The Board also draws its governance principles from these *Guidelines*.

The members of the Board are:

Mr. Kevin Mahoney (Chair), North Vancouver

Councillor Susan Brice, District of Saanich

Mr. Kelly Cairns, Kelowna

Mr. Bob De Clark, Nanaimo

Mayor Mary Sjostrom, City of Quesnel

There are at present two vacant positions on the BC Transit Board. It is expected that these positions will be filled in 2012/13.

The Board is responsible for setting the long-term strategic direction for BC Transit, approving the three-year Service Plan, approving the annual business plan presented by management, allocating the provincial grant to achieve government expectations, approving operating and capital budgets and major capital projects, appointing the Chief Executive Officer and monitoring the performance of management towards short-term and long-term business and strategic goals.

1 *http://www.bctransit.com/corporate/general_info/governance.cfm*

To support the transit program during the year, the Board of Directors met with local government partners from Quesnel, Williams Lake, 100 Mile House and Prince George as part of the annual board retreat held this year in the City of Quesnel.

The BC Transit Board has one standing committee, the Audit, Finance and Risk Management Committee. The purpose of this committee is to review and oversee financial reporting, internal controls, the external audit and risk management. The Committee is comprised of at least three Board members, elected annually by the Board of Directors. Existing membership is:

Mr. Kelly Cairns, Committee Chair

Mr. Kevin Mahoney

Councillor Susan Brice, District of Saanich

With respect to budget development, corporate budget submissions are approved by the Board and forwarded to the Minister responsible for review and presentation to Treasury Board. Provincial funding is provided through the public transportation sub-vote of the Ministry of Transportation and Infrastructure.

More information about BC Transit's corporate governance is available on the company website.[2]

SENIOR LEADERSHIP TEAM

Manuel Achadinha, President and CEO

Mike Davis, Vice President, Operations and COO

Michael Kohl, Vice President, Finance and CFO

Brian Anderson, Vice President, Business Development and CIO

Aaron Lamb, Executive Director, Asset Management

The senior leadership team takes an inclusive and hands on approach to ensuring the safety, customer service and continuous improvement of the organization and its services.

In 2011/12, the team had a significant presence in communities across the province. Activities included:

- Conducted over 15 workshops across the province to directly engage with local government elected officials and senior staff to discuss opportunities for improvement to systems and the partnership;
- Led a working group of over 40 local government and operating company representatives to identify and prioritize investment requirements;
- Held focused meetings with local governments to address specific issues and planning initiatives;
- Held regional workshops across the province to discuss financial outlook, performance monitoring and opportunities; and
- Presented at the Union of BC Municipalities annual conference.

2 *http://www.bctransit.com/corporate/general_info/governance.cfm*

09 The Year's Accomplishments

The Year's Accomplishments

2011/12 Performance Summary

- Delivered a total of 51.6 million passenger trips, a 0.7 per cent increase from the previous year and 3.0 per cent above target.
- Realized significant year-over-year ridership gains in a number of communities, including Castlegar (61 per cent), Salt Spring Island and the Cowichan Valley – Victoria Commuter service (29 per cent each), the local Cowichan Valley service (15 per cent), Powell River (14 per cent), Prince George (12 per cent), and Vernon and Campbell River (9 per cent each).
- Increased service throughout the province by 0.7 per cent while year-end expenditures were 5.6 per cent below budget.
- Celebrated long-term service to communities across British Columbia, including a 40-year operating anniversary in Port Alberni, 35 years in Penticton and 30 years of service in the conventional systems of Campbell River, Dawson Creek, Kimberley and Williams Lake and handyDART services in Cranbrook, Vernon, Kamloops, Prince George and the Sunshine Coast.

In 2011/12, BC Transit provided service to more customers while keeping costs per passenger and per hour of service lower than peer Canadian transit systems . Some of the past year's most notable performance results came from efforts focused on driving revenue and ridership, finding new efficiencies and enhancing partnerships.

Driving revenue and ridership. BC Transit undertook a number of planning and scheduling initiatives to determine how transit could be restructured in each community to best deliver results. This included Transit Future plans completed in the Victoria Region, Campbell River, the Cowichan Valley and Kamloops and service reviews completed or begun in 18 other systems around the province. Fare structure reviews, new farebox technology and revised transfer systems resulted in more revenue from each passenger while the province-wide *Transit Hero – Tell Your Story* campaign and the online Marketing Resource Centre helped BC Transit spread its message and attract new customers.

Capital investment in projects like the new downtown Vernon transit exchange, Victoria's McTavish exchange and park & ride, and transit operations and maintenance facilities in Kamloops and Vernon raised the community profile of transit and ensured that it has the infrastructure for long term success. Rapid transit projects in Victoria and Kelowna continued to progress towards implementation and captured public attention.

Finding new efficiencies. BC Transit continued to leverage its shared services model to deliver savings through fuel bulk purchase, price contracts and shared procurement of everything from vehicles to maintenance parts and bus shelters. The organization also examined business priorities and resources through an internal review that resulted in a 9 per cent reduction in exempt staff.

BC Transit continued to derive cost savings by focusing on its values. The organization demonstrated its ongoing commitment to safety through initiatives such as its new online training centre and achievement of WorkSafeBC Certificate of Recognition designation and these in turn realized savings. Similarly, the testing and purchase of smaller neighbourhood friendly low floor vehicles and alternative propulsion systems helped the organization meet its social, environmental and financial goals.

Enhancing partnerships. A major priority for BC Transit this year was the improvement of partner relations and communications. The organization developed three year budget and annual performance reporting processes to better communicate with local governments on system performance and funding requirements and held regional finance workshops with local government elected officials and senior staff.

Collaboratively with its partners, BC Transit also undertook a business process review called the Enterprise Investment Initiative to prioritize improvements and investments for all major business processes, including communications, monitoring and service planning. The organization developed an annual partnership survey to track progress and gather feedback from its partners and 2011/12 results show a marked improvement thanks to this focus.

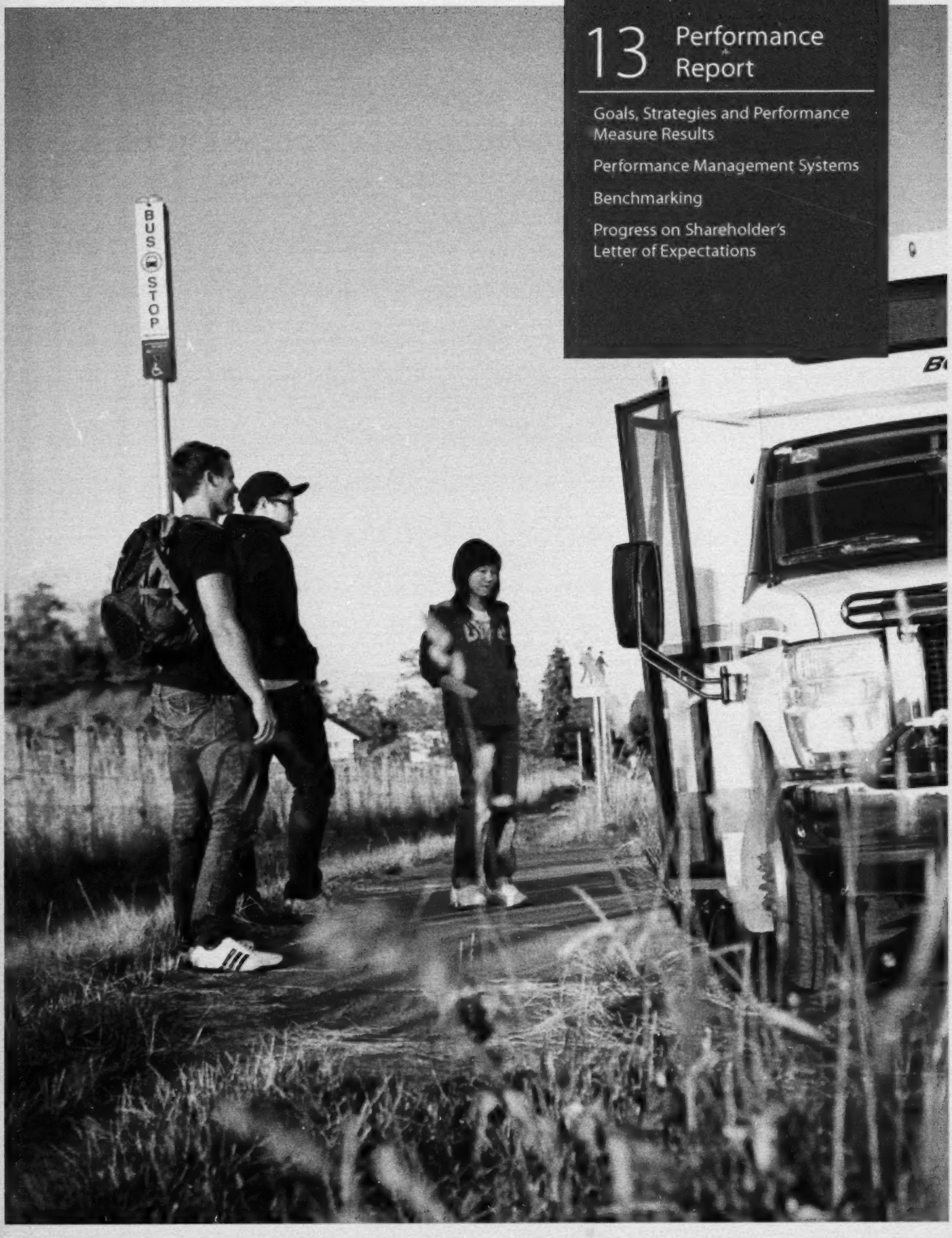
13 Performance Report

Goals, Strategies and Performance Measure Results

Performance Management Systems

Benchmarking

Progress on Shareholder's Letter of Expectations



Performance Report

Goals, Strategies and Performance Measure Results

This performance report highlights BC Transit's results achieved for the fiscal year ending March 31, 2012. The five goals presented in this section are unchanged from the previous annual report and 2011/12 Service Plan. These goals were first published in *Shaping our Future*, the strategic plan developed in response to the *Provincial Transit Plan*.

This section presents the corporate goals, objectives and strategies set for the corporation in the 2011/12 – 2013/14 Service Plan. However, reflecting BC Transit's focus on continuous improvement, some of the performance measures and targets have been updated to include measures added in the 2012/13 – 2014/15 Service Plan. These updated and additional measures reflect the current business environment and expand on the level of detail provided in the 2011/12 Service Plan. Therefore, this performance report section addresses the expanded list of measures.

Some performance measure names have been changed slightly to clarify meaning, particularly those which used to refer to "revenue passengers." "Passenger trips" is now the preferred unit for expressing indicators related to ridership as it most accurately describes what is being measured. The table below presents the additional measures and revised names.

Where a performance measure target existed in the 2011/12 Service Plan, the "2011/12 Corporate Target" presented in this performance monitoring section reflects that target. For the additional measures listed, "Corporate Target" reflects the 2011/12 forecast presented in the 2012/13 Service Plan.

Several references are made in this section to the *Provincial Transit Plan*, available at http://www.th.gov.bc.ca/transit_plan/ and the BC Transit Strategic Plan, *Shaping our Future*, available at http://www.bctransit.com/2030/.

A discussion of Opportunities and Risk Factors and Organizational Capacity affecting these performance outcomes as well as financial outcomes is presented in the Management Discussion and Analysis section on page 46.

Original 2011/12 Service Plan Measures

- Service hours (thousands)
- Revenue passengers (thousands)
  - » *Now:* "Passenger trips (thousands)"
- Rides / capita
  - » *Now:* "Passenger trips per capita"
- Operating cost recovery
- Operating cost per revenue passenger
  - » *Now:* "Operating cost per passenger trip"

Additional Measures from 2012/13 Service Plan

- Proportion of Transit Future plans completed in major urban centres
- Level of perceived transit service improvement
- Brand recognition
- Number of passenger injury incidents per million boardings
- Customer satisfaction (on a scale of 1 to 5)
- Carbon intensity per service hour
- Employee engagement
- Partner satisfaction (on a scale of 1 to 5)

BC Transit Performance Measurement Results 2011/12

GOAL	STRATEGIES	MEASURES	2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Goal 1: Develop financial sustainability	Increase non fare and fare based revenue	Operating cost recovery	33.4%	33.1%	33.3%	31.1%*	✓	30.4%	29.4%	28.0%
	Governance and responsibilities									
	Cost efficiencies	Operating cost per passenger trip	$3.73	$3.84	$3.96	$4.29*	✓	$4.32	$4.49	$4.72
Goal 2: Support and shape livable communities	Integration	Passenger trips per capita	31.5	32.9	32.8	31.9*	✓	32.8	33.3	33.8
	Land Use	Proportion of Transit Future plans completed in major urban centres	New measure		29%	New measure		70%	100%	100%
	Corridors									
Goal 3: Change the perception of transit	Promotion	Level of perceived transit service improvement	40%	39%	33%	35%	✗	35%	37%	39%
	Awareness	Brand recognition	23%	25%	26%	26%	✓	28%	30%	33%
Goal 4: Deliver operational excellence	Safety	Number of passenger injury incidents per million boardings	6.1	5.6**	4.8	4.8**	✓	4.7**	4.6**	4.5**
	Service	Passenger trips (000s)	48,753	51,204	51,585	50,096*	✓	51,849	53,093	54,368
	Effectiveness	Transit service hours (000s)	2,086	2,154	2,170	2,233*	✗	2,251	2,331	2,414
	Engagement	Customer satisfaction (on a scale of 1 to 5)	3.65	3.67	3.66	3.63	✓	3.63	3.67	3.71
Goal 5: Strengthen accountability, people and partnerships	Accountability	Carbon intensity per service hour (kg CO2e/hour)	n/a	28.83	28.64	28.81	✓	28.72	28.68	28.63
	People	Employee engagement	New measure		54%	New measure		55%	56%	57%
	Partnerships	Partner satisfaction (on a scale of 1 to 5)	n/a	2.94	3.22	3.03	✓	3.06	3.12	3.12

*** Denotes target from 2011/12 - 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 - 2014/15 Service Plan.**

****Figures originally published in the 2012/13 - 2014/15 Service Plan reflected Victoria Regional Transit System information only. These revised figures—as well as actuals presented for 2009/10 and 2011/12—reflect the provincial combined result for Victoria and all Regional Transit Systems.**

Goal 1 – Develop Financial Sustainability

Sustainable long-term revenue sources are fundamental to the ability of BC Transit to deliver on its mandate now and into the future. Since more than two thirds of total revenues come from provincial and local government sources, the viability of transit service is directly linked to continuing financial support from these levels of government. Maintaining government funding support requires demonstrating the continuing public demand for transit services (as demonstrated through ridership) as well as the cost-effective use of public monies (as demonstrated through operating and administrative efficiency).

Strategies	BC Transit Actions in 2011/12
1.1 Renew and revise revenue sources and structures so that BC Transit and its partners can plan, prioritize and implement transit improvements over the longer term horizon.	• Continued to work with Ministry of Transportation and Infrastructure to explore improved funding and governance arrangements. • Presented options to City of Abbotsford and District of Mission to increase transit service and introduce alternative revenues. • Formed a joint task force with the Capital Regional District to find alternate funding and transit incentives for the local share of project costs for the Victoria Regional Rapid Transit Project and other transit infrastructure priorities identified in the Victoria Region Transit Future Plan. • Prepared a business case on opportunities to generate additional revenue from third party use of the Whistler Transit Facility. • Implemented electronic fareboxes in major systems and introduced a new transfer format in the Victoria Region to improve fare monitoring and reduce fare evasion. • Advised local governments on fare structures and implemented fare changes in 15 communities. • Added Victoria's Royal Roads University to the UPASS program.
1.2 Review and redefine governance structures and responsibilities with partners to better enable long term, regional decision making and clarified responsibilities and communications.	• Developed a three year budget process and annual performance reporting to better communicate with local governments on system performance, funding and future requirements. • Undertook a series of initiatives to improve partner communications, including: » Held regional finance workshops with local government elected officials and senior staff. » Led working group comprised of local government, operating companies and BC Transit staff to clarify roles and prioritize long term investment requirements. » Implemented an annual partnership survey process to gain feedback on BC Transit's customer service to its partners and input on areas for improvement.

Strategies	BC Transit Actions in 2011/12
1.3 Improve cost control, communication and monitoring processes to mitigate cost volatility, maximize efficiencies and increase performance.	• Collaboratively with its partners, BC Transit undertook the Enterprise Investment Initiative to document, assess and determine the path to improvement for major business processes, including communications, monitoring and service planning. • Undertook an internal review to examine business priorities and resources that resulted in a 9 per cent reduction in exempt staff. • Utilized a risk management program to mitigate the risk of fuel price volatility. The program includes entering into targeted fixed price supply agreements on a portion of fuel consumption to contain cost volatility, identifying other initiatives to realize cost savings to market (such as large volume bulk purchases to mitigate risk), and forming strategic partnerships. • Tested and committed to purchase 15 smaller low floor buses to reduce costs and best fit vehicles to specific neighbourhood needs. • Undertook detailed service reviews of 18 transit systems to maximize the effective use of existing resources.

Performance Measures and Results

	2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Operating cost recovery	33.4%	33.1%	33.3%	31.1%*	✓	30.4%	29.4%	28.0%
Operating cost per passenger trip	$3.73	$3.84	$3.96	$4.29*	✓	$4.32	$4.49	$4.72

*** Denotes target from 2011/12 – 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 – 2014/15 Service Plan.**

Measure definition, importance and results

Operating cost recovery is measured by dividing operating revenue by annual operating cost. The ratio indicates the proportion of costs recovered from operating revenue. A strong cost recovery is desirable, as it reduces the subsidy from the taxpayer. Under the *British Columbia Transit Act*, local governments are responsible for establishing fares and making decisions with respect to trade-offs between fares and property taxes to fund transit service. These decisions can have an impact on the cost recovery ratio as they may reduce operating revenues.

▶ Result: *Target met.* Operating cost recovery was 33.3 per cent, an improvement over the 2011/12 Service Plan target of 31.1 per cent and above the previous year's 33.1 per cent. This was driven by strong revenue performance from revised fare structures in 15 systems, initiatives to reduce fare fraud, moderate ridership increase and continued gains in the number of passengers using monthly passes and UPASSes. Strong revenue performance in this measure was somewhat offset by inflationary operating costs including fuel, maintenance and labour.

Operating cost per passenger trip reflects annual operating cost divided by annual passengers carried. This ratio indicates the efficiency of transit expenditures directed toward passengers carried. Increasing cost per passenger indicates that costs are growing faster than ridership.

▶ Result: *Target met.* Operating cost per passenger trip of $3.96 remained below the $4.00 level and well below the original 2011/12 Service Plan target of $4.29. It increased from the previous year's total of $3.84 mainly due to inflationary operating costs, including fuel, maintenance and labour.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to continue to control costs, grow ridership and improve revenue yield. These include:

- Providing partner communities with a standardized fare review process and guidelines to ensure that the maximum revenue yield per passenger is realized.
- Continuing to control costs and work to contain volatility, particularly in the areas of fuel and maintenance.
- Implementing the first phases of the Enterprise Investment Initiative and an enhanced service review process.

Goal 2 – Support and Shape Livable Communities

BC Transit supports more livable communities, a goal of the *Provincial Transit Plan*, by encouraging transit-supportive community planning and investments to make it easier to get around by walking, cycling and transit. Greater integration between land use development and transit planning enables greener, more sustainable communities and improves the efficiency of transit services and related infrastructure.

Strategies	BC Transit Actions in 2011/12
2.1 Increase integration with other types of sustainable travel to enhance transportation options and make it easier for pedestrians, cyclists and regional travelers to link to BC Transit services.	• In partnership with the Ministry of Transportation and Infrastructure, completed the McTavish Park & Ride facility in Victoria which included bicycle racks and storage lockers, bicycle and pedestrian pathways linking to the greater transportation network and wheelchair accessibility at all stops at the exchange. • Implemented a new transit exchange in Vernon that compliments the walkable downtown core and ensures that transit is a focal point in the community. • Implemented over 84 cost-shared shelters in communities around the province through the Bus Shelter Program to improve the safety and comfort of customers. • Maintained the policy of providing bike racks on all conventional vehicles.
2.2 Work with partners to influence land use development patterns that encourage walking and cycling, and increase the effectiveness of public transportation.	• Undertook or completed long term Transit Future Plans in the Victoria Region, Campbell River, Abbotsford-Mission, Chilliwack, Cowichan Valley, Kamloops and Central Okanagan. These plans seek to create alignment between local land use plans and decision making and investment in transit services and infrastructure. • Refined the development referral process which enables BC Transit staff to provide input on proposed local government development and zoning changes.
2.3 Identify and establish priority corridors for transit to make travel more attractive and reliable and reduce the impact of congestion.	• Achieved endorsement of the Victoria Regional Rapid Transit Project's recommendation of Light Rail Transit (LRT) from downtown Victoria to the West Shore by the BC Transit Board, the Victoria Regional Transit Commission, the Capital Regional District, and the municipalities along the alignment. • Identified interim options for bus priority improvements along the Victoria Region's proposed rapid transit alignment in a manner that does not compromise the potential longer term implementation of LRT. • Completed and received Project Board approval of a Project Definition Report which defines items such as scope, schedule, budget, communications and procurement for the second phase of the Kelowna RapidBus Project, with a target project completion date of 2014. • Accelerated construction of the southbound McCurdy station for the Kelowna RapidBus Project. • Implemented transit signal priority along the Douglas Street corridor in the Victoria Region.

Performance Measures and Results

	2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Passenger trips per capita	31.5	32.9	32.8	31.9*	✓	32.8	33.3	33.8
Proportion of Transit Future plans completed in major urban centres	New measure		29%	New measure		70%	100%	100%

* Denotes target from 2011/12 – 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 – 2014/15 Service Plan.

Measure definition, importance and results

Passenger trips per capita is derived by dividing annual passengers carried by service area population. This provides an indicator of market share (a target set out in the *Provincial Transit Plan*). It also demonstrates the impact of efforts to make transit more accessible through integration with other forms of transportation and to influence land use decisions that support greater transit use (such as densification). Increasing passenger trips per capita reflects a transit system that is providing greater transportation benefit to the community and is readily accessible to users.

▶ Result: *Target met.* Passenger trips per capita was 32.8, above the target set for this year in the 2011/12 Service Plan and only marginally below last year's result of 32.9. This result indicates that BC Transit was able to achieve ridership growth in line with the rate of population increase.

Proportion of Transit Future Plans completed in major urban centres measures the completion of planning to align local land use plans – including efforts to increase density and build more pedestrian and cycling paths – with investments in transit services and infrastructure. All major urban centres (over 25,000 population) will have a Transit Future Plan developed to create an alignment between local land use plans and decision making and investment in transit services and infrastructure.

▶ Result: This is a new performance measure introduced to broaden performance reporting. The proportion of Transit Future Plans completed in major urban centres in 2011/12 was 29 per cent, representing the successful completion of plans in the Victoria Region, Kamloops, Campbell River and Cowichan Valley. Six additional plans are slated for completion in 2012/13, including the Central Okanagan, Abbotsford-Mission and Chilliwack plans which had substantial work completed on them in 2011/12.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further support and shape livable communities, including:

- Undertaking additional Transit Future Plans, with new plans underway or scheduled to begin in 2012/13 in Prince George, the North Okanagan, the Nanaimo Region and the Sunshine Coast.
- Providing messaging about the links between land use and transit in key forums, such as at regional local government management associations and the Planning Institute of BC annual conference.

Goal 3 – Change the Perception of Transit

Implicit in goals 1 and 2 is the need for effective communication and marketing. In order to keep existing customers and attract new ones, BC Transit must market its services in competition with private automobiles and reach out to customers in new ways, such as through social media. To help build livable communities, BC Transit must reach out to various community and stakeholder groups to build awareness and support for public transportation as an important part of creating sustainable, green communities.

Strategies	BC Transit Actions in 2011/12
3.1 Promote sustainable transportation and awareness of BC Transit as a transportation leader.	• Continued the roll out of innovative new public engagement and education processes as part of Transit Future Plan development. • Increased the use of social media to raise awareness of transit's brand and benefits, particularly for people who may have access to automobiles but will choose to take transit.
3.2 Increase advocacy and outreach practices.	• Created a province-wide online Marketing Resource Centre which provides local transit partners access to marketing tips, toolkits, promotional materials, circulars and programs to promote their local transit systems and the value of transit. • Implemented the *If it's Green…Just Go!* campaign featuring an animated ad to promote transit, walking and cycling as part of an overall healthy and connected lifestyle. • Created the province wide *Transit Hero - Tell Your Story* campaign which encouraged transit users to post stories, pictures and videos online about the great people and positive experiences in their transit systems.

Performance Measures and Results

	2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Level of perceived transit service improvement	40%	39%	33%	35%	✗	35%	37%	39%
Brand recognition	23%	25%	26%	26%	✓	28%	30%	33%

*** Denotes target from 2011/12 – 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 – 2014/15 Service Plan.**

Measure definition, importance and results

Level of perceived transit service improvement is based on the per cent of customer tracking survey respondents who state that transit has improved over the past year. This provides an indicator of service quality (Goal 4) as well as the effectiveness of marketing and communication activities in making customers aware of new services and local transit initiatives.

▶ Result: *Target not met.* The level of perceived transit service improvement was 33 per cent, below the 2011/12 forecast of 35 per cent and last year's 39 per cent. This is mainly due to service reductions that took place in a number of systems, most notably service reductions in the Victoria Region, Kelowna Region, Whistler and Nelson and the cancellation of the Sea to Sky Commuter service between Squamish and Whistler.

The surveys from respondents in the Victoria region make up 45 per cent of the overall sample size (in line with system weighting). The level of perceived transit improvement in the Victoria Region alone dropped from 37 per cent in 2010/11 to 25 per cent this past year due to service cuts. Transit service levels are set by local partners.

BC Transit is working with its local partners to mitigate this result. In the Victoria Region, the system will reinstate the lost hours in 2012/13, accomplished through passenger revenue increases and cost containment initiatives. Throughout all systems, BC Transit will focus on highlighting positive improvements, including service changes accomplished through reallocating service and improved passenger amenities like bus stop shelters and trip information.

Brand recognition is based on the per cent of customer tracking survey respondents who recognize BC Transit's role in the delivery of transit service in their local transit system. This tracks the effectiveness of marketing and communication programs at building awareness of BC Transit and its leadership role in providing sustainable transportation services to British Columbia, since this messaging is embedded in all branding activities.

▶ Result: *Target met.* The level of brand recognition was 26 per cent for 2011/12, in line with the forecast for this year and up from the previous year's result of 25 per cent. This reflects continued roll out of the BC Transit brand as well as outreach activities such as Transit Future public consultations and the Transit Hero public engagement campaign.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to change the perception of transit, including:

- A revamped look and feel to the BC Transit website with more ways for customers to access information and provide input.
- Developing an updated corporate communications plan to confirm that strategic messages are reaching their target audiences.
- Additional work in the year ahead include continuing the roll out of Google™ Transit and transit priority projects.

Goal 4 – Deliver Operational Excellence

The BC Transit business model is based on developing and delivering safe, reliable, easy-to-use services that continuously improve through active engagement with employees, customers and partners. These services must continuously adapt and improve to meet the needs of customers, especially in the midst of continuing social, technological and community development change.

Strategies	BC Transit Actions in 2011/12
4.1 Ensure the safety of employees and customers.	• Implemented an enhanced provincial Safety and Security Management System to enable better tracking of safety procedures and incidents across the province. • Created a safety and training website to enable all operating companies to access consistent information and best practices. • Completed an external safety audit of BC Transit's Victoria operations and was awarded Certificate of Recognition designation from WorkSafeBC.
4.2 Better monitor and address the service reliability and on-time performance of transit systems.	• Developed and implemented a process to monitor system reliability and customer comments for all conventional transit systems and began development of a similar process for custom and paratransit systems. • Implemented new electronic farebox technologies in all major systems to better monitor system performance and assist in planning improvements.
4.3 Ensure an effective public transportation system.	• Undertook service reviews to improve system effectiveness and efficiency in 18 transit systems. • Implemented service changes in 26 communities targeted to identified markets to ensure that the number of passengers carried per capita and per hour of service continues to increase. • Invested in infrastructure needed to support effective service delivery and service expansion, in particular: » Completed a new transit operations and maintenance facility and transit exchange in Vernon. » Undertook construction of a new operations and maintenance facility in Kamloops (targeted for completion in September 2012). » Built the McTavish Park & Ride and exchange in the Victoria Region. » Installed over 84 cost-shared bus shelters in communities throughout the province through the Bus Shelter Program. » Prepared for the launch of an integrated transit communications centre (T-Comm) in the Victoria Regional Transit System which will better enable monitoring of system reliability and coordination between front line staff and supervisory, dispatch and security staff. • Continued to improve the travel experience for customers through the purchase of additional small low floor handyDART vehicles and community buses. • Undertook research to look at custom transit eligibility best practices across North America and reviewed BC Transit's own practices to look for ways to improve the eligibility process and ensure that handyDART service levels are maintained for those who need it most.

Strategies	BC Transit Actions in 2011/12
4.4 Enhance communication and engagement with customers.	• Made transit information easier to access by expanding the online trip planner to the Victoria Regional and Kelowna Regional transit systems. • Created a Rider's Information campaign to provide consistent information on policies and guidelines to BC Transit's customers. • Continued to expand the use of the Transit Future bus, website, surveys and public engagement materials to promote transit systems and gather feedback into the design of their services. • Made further use of online social marketing tools to provide updates on BC Transit initiatives and transit system initiatives, delays or service changes.

Performance Measures and Results

		2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Number of passenger injury incidents per million boardings	▶	6.1	5.6**	4.8	4.8**	✓	4.7**	4.6**	4.5**
Passenger trips (000s)		48,753	51,204	51,585	50,096*	✓	51,849	53,093	54,368
Transit service hours (000s)		2,086	2,154	2,170	2,233*	✗	2,251	2,331	2,414
Customer satisfaction (on a scale of 1 to 5)		3.65	3.67	3.66	3.63	✓	3.63	3.67	3.71

*** Denotes target from 2011/12 – 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 – 2014/15 Service Plan.**

****Figures originally published in the 2012/13 – 2014/15 Service Plan reflected Victoria Regional Transit System information only. These revised figures – as well as actuals presented for 2009/10 and 2011/12 – reflect the provincial combined result for Victoria and all Regional Transit Systems.**

Measure definition, importance and results

Number of passenger injury incidents per million boardings measures passenger safety. Maintaining and improving safety is of primary importance in BC Transit's mission and values. It is also fundamental to transit's image and the ability to attract new users. A safe trip from start to finish is a fundamental commitment to both employees and customers.

▶ Result: *Target met.* The number of passenger injury incidents for 2011/12 was 4.8, on target with the 2011/12 corporate forecast of 4.8 and continued improvement from previous years. The result reflects the enhanced provincial Safety and Security Management System and other safety initiatives. Note that all figures presented for this measure now reflect revised results and targets for the provincial total, a change from the 2012/13 Service Plan which presented Victoria Regional Transit figures only.

Passenger trips reports riders who have made a one-way trip using transit. It is the primary measure of provincial demand for transit services and demonstrates that fare levels and products, as well as service, continue to meet customer needs. It also tracks BC Transit's progress in meeting *Provincial Transit Plan* intent.

▶ Result: *Target met.* The number of passenger trips in 2011/12 was 51.6 million, a 0.7 per cent increase from last year's 51.2 million and 3.0 per cent above the 2011/12 Service Plan target of 50.1 million. This result is even more notable since the number of service hours added were below target due to service reductions in a number of systems (see Service Hours, below). This shows continued demand from the public for transit and is the result of BC Transit's ongoing efforts to maximize ridership generated from available hours and resources.

Service hours measure the ability of BC Transit and local government to provide responsive service across the province.

▶ Result: *Target not met.* BC Transit operated 2.17 million service hours across the province last year, up from the previous year's 2.15 million but down from the 2011/12 Service Plan target of 2.23 million. Hours were below target mainly due to local government funding constraints that saw service reductions in the Victoria Regional, Kelowna Regional, Whistler and Nelson transit systems, cancellation of the Sea to Sky Commuter Service between Squamish and Whistler and the delay until the following year of some expansions. BC Transit is continuing to address this issue by working with local governments to develop strategies to contain transit costs and develop revenues, and by advising the provincial government of opportunities to refine the existing legislated model.

Overall customer satisfaction measures the average rating of customer tracking survey respondents when asked to rate their overall transit experience from one ("very poor") to five ("excellent"). This measure tracks the effectiveness of BC Transit in meeting customer expectations.

▶ Result: *Target met.* Customer satisfaction in 2011/12 was ranked as an average of 3.66 on a scale of 1 to 5, above the 2011/12 corporate forecast of 3.63 and just slightly below last year's 3.67. The forecast had been lower due to the anticipated impact of service reductions in a number of systems. Customer satisfaction achieved a higher result than expected due to service reduction impacts being mitigated by a broader array of improvements in other areas like customer service, passenger information, vehicle comfort, bus stop amenities and promotion of transit.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further deliver operational excellence, including:

- The roll out of further transit operator training programs to ensure safety of BC Transit's drivers, including a program focused on the prevention of workplace violence.
- Continued detailed review of transit systems to look for opportunities to improve reliability, ease of use and therefore ridership.
- The completion of more infrastructure projects to improve customer satisfaction and transit system operations, including completion of the Kamloops transit operations and maintenance facility, implementation of the Victoria Region's transit communications centre (T-Comm), and the second phase of the Kelowna RapidBus Project.
- Working with partners to review potential custom transit eligibility process changes.
- Continued roll out of Google™ Transit online trip planning as well as other website revisions to improve customer service and ease of use.

Goal 5 – Strengthen our Accountability, People and Partnerships

The success of BC Transit depends on creating an adaptable, socially responsible organization that lives its values, develops its existing employees and partnerships, and attracts new people and opportunities. This means actively working to improve how employees are attracted and developed, encouraging a culture of innovation and accountability, monitoring environmental, social and economic impacts, and strengthening relationships with local government and other partners.

Strategies	BC Transit Actions in 2011/12
5.1 Increase BC Transit's environmental, social and economic accountability.	• Submitted the organization's Carbon Neutral Action Report for calendar 2010 during the financial year 2011/12. • Tested new fleet technologies to reduce energy consumption and emissions, in particular North America's first testing of a double-deck vehicle with emission reducing EPA 2010 certified engine as well as a zero-emission BYD electric eBus-12 which uses iron-phosphate battery technology and integrates solar panels on the bus roof to convert solar energy to electricity. • Signed a contract for the supply of 15 smaller low floor buses which will deliver fuel and GHG savings when used in place of conventional, heavy duty transit buses. • Continued the partnership with the BC Scrap It Program through which BC Transit offers a monthly pass incentive for vehicle owners to scrap their older, more polluting vehicles and adopt transit. • Undertook energy retrofits of Victoria Regional Transit System facilities, such as the upgrade of 50% of yard lighting at the Victoria Transit Centre to LED equivalent lighting. • Continued support of the Provincial demonstration project of the hydrogen fuel cell fleet in Whistler.
5.2 Become an adaptable workplace of choice.	• Undertook an employee engagement survey for the first time, with a notable participation rate of 70 per cent from the organization's more than 840 employees in the Victoria Region (employees from BC Transit's head office function and those from the Victoria Regional Transit System). • Discussed engagement results with employees and created a Human Resources Action Plan to guide improvements in the areas of workplace culture, labour relations, recruitment, retention and communications.

Strategies	BC Transit Actions in 2011/12
5.3 Enhance existing partnerships and develop new ones.	• Undertook the Enterprise Investment Initiative collaboratively with BC Transit's local government and operating company partners. Over 40 partners participated in this year long process which reviewed 82 of BC Transit's major business processes, identified over 70 solutions and created a five year work plan to address the top 40 priorities. • Held the BC Transit annual workshop in Penticton to bring together partners to share information and further build relationships. • Held regional workshops with local government partners to discuss financial outlook, performance monitoring and opportunities to improve communications. • Held regional workshops with operating company partners on the topics of maintenance and safety and training. • Undertook BC Transit's second annual partnership survey to measure transit partner perceptions of, and satisfaction with, BC Transit's services and responsiveness.

Performance Measures and Results

	2009/10 RESULT	2010/11 RESULT	2011/12 RESULT	2011/12 CORPORATE TARGET	TARGET MET?	2012/13 SERVICE PLAN TARGET	2013/14 SERVICE PLAN TARGET	2014/15 SERVICE PLAN TARGET
Carbon intensity per service hour (in kg CO2e/hour)	n/a	28.83	28.64	28.81	✓	28.72	28.68	28.63
Employee Engagement	New measure		54%	New measure		55%	56%	57%
Partner satisfaction (on a scale of 1 to 5)	n/a	2.94	3.22	3.03	✓	3.06	3.12	3.12

*** Denotes target from 2011/12 – 2013/14 Service Plan. All other corporate targets are based on the 2011/12 forecast from the 2012/13 – 2014/15 Service Plan.**

Measure definition, importance and results

Carbon intensity per service hour measures the ability of BC Transit to reduce its direct Greenhouse Gas Emissions (GHG) and supports the *Provincial Transit Plan* goal to reduce GHG emissions by 4.7 million tonnes by 2020. Carbon intensity is calculated using the Provincial Government's SMARTTool methodology and is measured by calculating the total emissions of BC Transit's fleet, facilities and paper usage in carbon dioxide equivalent tonnes.

▶ Result: *Target met.* In 2011/12, BC Transit's total emissions were 28.64 carbon dioxide equivalent kilograms per service hour (kg CO2e/hour), down from both the corporate forecast of 28.81 and last year's 28.83. This reduction was due to a number of different activities, in particular improved fuel efficiency through renewal of BC Transit's fleet and the continued impact of the Whistler hydrogen fuel cell fleet.

Employee engagement assesses what workplace experiences matter most to the employees and serves as a tool to develop actions that lead to changes in employment engagement. Engagement is assessed based on a model that uses structural equation modeling to understand what aspects of workplace influence the engagement characteristics.

▶ Result: This is a new performance measure introduced to broaden performance reporting. The employee engagement score for 2011/12 was 54 per cent. This was BC Transit's initial Workplace Environment Survey. A Human Resources Action Plan to address key issues was developed with staff and will roll out in 2012/13.

Partnership satisfaction measures the average rating of local government transit partner respondents when asked to rate their customer service received from BC Transit from one ("very poor") to five ("excellent"). This reflects efforts by BC Transit to improve service delivery as well as engage more extensively with partners in identifying and developing solutions to local transit needs.

▶ Result: *Target met.* On average, local government partners rated their overall satisfaction with the level of customer service provided by BC Transit as 3.22 in 2011/12, a significant increase over last year's 2.94 rating and the 2011/12 forecast of 3.03. Improving partner relations was a major priority at BC Transit in 2011/12 which drove many of the initiatives highlighted above. This concerted effort influenced the notable improvement to this measure.

Looking Ahead: Actions in Progress

BC Transit is working on a number of initiatives to further strengthen its accountability, people and partnerships, including:

- Implementing transit facility energy audit recommendations in the Victoria Regional Transit System at the Langford Transit Centre.
- Exploring new fleet propulsion alternatives – particularly electric and natural gas propulsion systems – and evaluating these for implementation.
- Implementing the first phase of the Human Resources Action Plan.
- Working with BC Transit's partners, implementing the first priority projects identified through the Enterprise Investment Initiative.
- Developing an updated corporate communications plan to improve how BC Transit's partners stay up to date and involved with the activities of the organization.

Performance Management Systems

The following outlines the sources of information used for the various measures reported in the Performance Measurement Framework.

Measure	Source
Goal 1: Develop financial sustainability	
Operating cost recovery	BC Transit financial system. Financial statements are audited by the Auditor General of British Columbia
Operating cost per passenger trip	BC Transit financial system. Financial statements are audited by the Auditor General of British Columbia
Goal 2: Support and shape livable communities	
Passenger trips per capita	Ridership information through internal tracking data. Population is based on the defined service area and uses Census Canada information updated by the latest BC Statistics data
Transit Future Plans completed	Internal tracking data
Goal 3: Change the perception of transit	
Level of perceived transit service improvement	Annual customer tracking survey, conducted by a third party research firm
Brand recognition	Annual customer tracking survey, conducted by a third party research firm

Measure	Source
Goal 4: Deliver operational excellence	
Passenger trips	Internal tracking data
Number of passenger injury incidents per million boardings	Internal tracking data
Customer satisfaction	Annual customer tracking survey, conducted by a third party research firm
Service hours	Internal tracking data
Goal 5: Strengthen our accountability, people and partnerships	
Carbon intensity per service hour	SMARTTool data and internal tracking data
Employee engagement	BC Stats (BC Transit employee survey)
Partnership satisfaction	CivicInfoBC Transit Survey

The integrity and reliability of BC Transit's performance monitoring data are assured through a number of processes:

- Financial operating and capital actual expenditures are reviewed monthly, quarterly and annually by internal finance and source department staff and also reviewed as part of BC Transit's annual financial statement audit by the Auditor General of British Columbia.
- Revenue and ridership statistics are reviewed monthly, quarterly and annually by internal staff, with ridership statistics reconciled against passenger revenue data to ensure accuracy. Revenue results are also reviewed as part of BC Transit's annual financial statement audit by the Auditor General of British Columbia.
- Service Hours, Number of Passenger Injury Incidents and base data used to calculate Carbon Intensity are supplied monthly by contracted and internal operations staff and reviewed monthly, quarterly and annually by internal BC Transit staff. BC Transit self certifies its Greenhouse Gas emissions following Public Service Organization Self-Certification Emissions Check List and this is subject to periodic audit by the Province.
- Transit Future Plan statistics are collected and maintained by internal staff with trends compared by community and annually to review anomalies and ensure accuracy.
- All remaining statistics collected by third parties—such as those from Stats Canada, BC Stats, CivicInfoBC and third party research firms—are reviewed annually by BC Transit staff in order to analyze trends and investigate apparent anomalies.

Benchmarking

BC Transit benchmarks its performance against transit statistics collected and published by the Canadian Urban Transit Association (CUTA). The selected performance ratios gauge and compare overall service effectiveness and efficiency and are the statistics most universally used by the North American transit industry to track achievement of strategic goals.

To ensure that transit system comparisons are most relevant and accurate, BC Transit divides its systems for benchmarking based on population size and service type. The divisions and statistics used for each are as follows:

Conventional Transit Service – Victoria Regional Transit System performance is compared with CUTA urban transit systems of a similar size. In the case of Regional Transit Systems outside Greater Victoria, service in the six largest systems is averaged and compared with systems of a similar size in CUTA. Measures used include:

- Passenger trips per capita
- Passenger trips per hour
- Operating cost per hour
- Operating cost per passenger trip

Custom Transit Service – Victoria Regional Transit System custom service performance is compared with CUTA specialized transit systems of a similar size. In the case of Regional Transit Systems, custom transit performance in the eight largest systems is averaged to compare with similarly-sized CUTA specialized transit systems. Measures used include:

- Operating cost per van hour
- Van passengers per hour

In the case of custom transit statistics, "van" is used to denote those hours of service and passengers carried by custom transit vehicles only. For reasons of comparative consistency it therefore excludes the passengers that BC Transit carries through other means, such as through partnerships with taxi companies and regional transportation providers.

Appendix A3 provides the detailed benchmarking results for these measures.

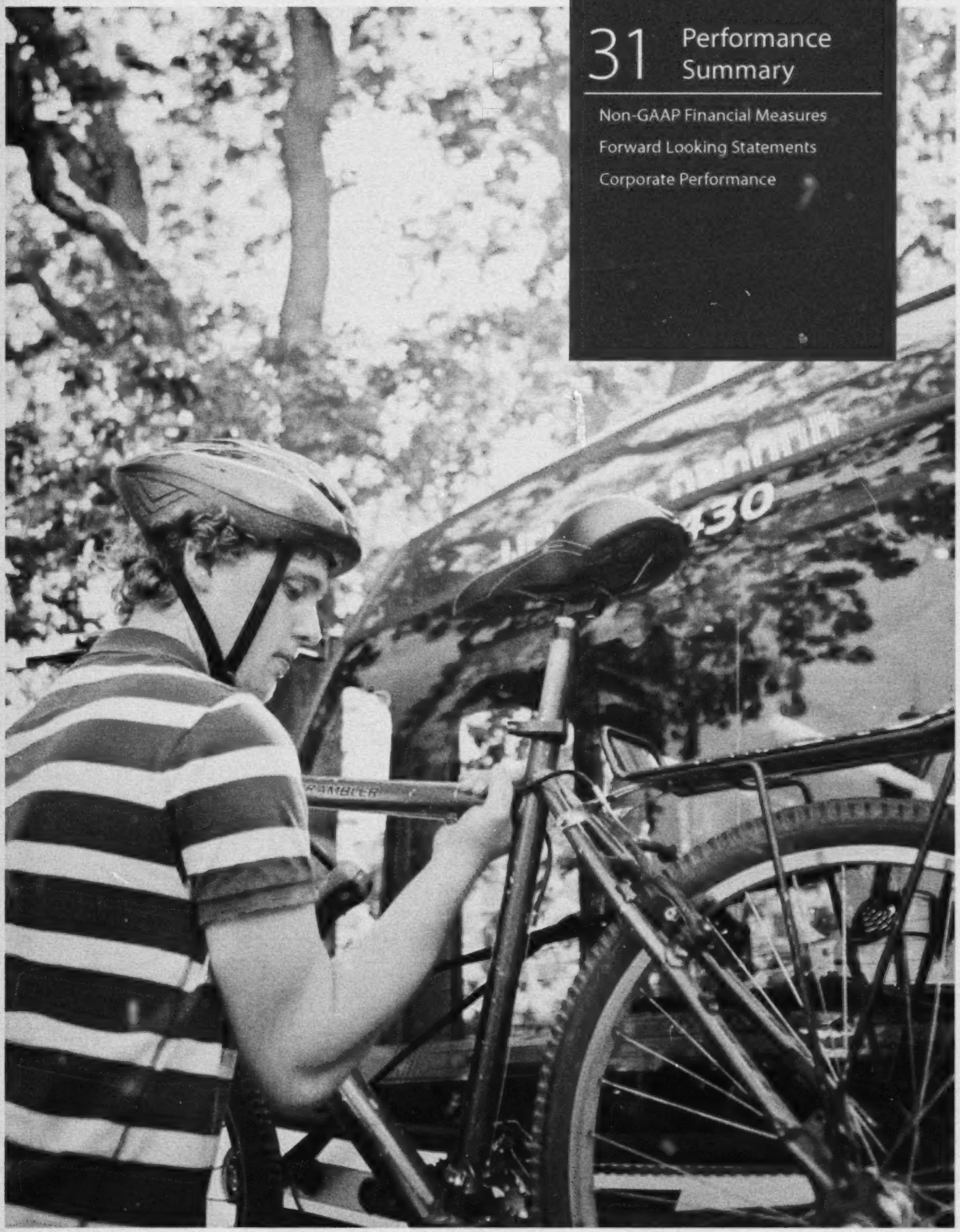
Progress on Government's Letter of Expectations

The Minister of Transportation and Infrastructure, to whom BC Transit reports, outlines performance expectations in support of customer needs and government priorities through an annual Shareholder's Letter of Expectations (now known as the "Government's Letter of Expectations.") The terms of the agreement are reviewed and updated annually. The entire 2011/12 agreement can be viewed on the BC Transit website under BC Transit General Information at the following link: http://www.transitbc.com/corporate/general_info/annual_reports.cfm#service_plan.

The key requirements identified for BC Transit for the fiscal year 2011/12 and actions taken are outlined in the following table.

Specific Direction to the Corporation	BC Transit Actions in 2011/12
Provide advice and support to the Government in the development and implementation of transit funding strategies.	BC Transit continued to work with the Ministry of Transportation and Infrastructure to explore improved funding and governance arrangements. BC Transit presented options to City of Abbotsford and District of Mission to increase transit service and introduce alternative revenues. BC Transit prepared a business case on opportunities to generate additional revenue from third party use of the Whistler Transit Facility.
Provide advice and support to the Government on transit services and technologies that support government's environmental and climate change objectives.	BC Transit undertook the following initiatives in 2011/12 aimed at reducing its carbon footprint: • Further reduced Greenhouse Gas emissions from the organization's non-revenue vehicle fleet (transit supervisor and fleet maintenance vehicles) by 8 per cent over the previous year through increased operational application of these hybrid vehicles acquired in 2010. • Showcased new vehicle technologies as part of BC Transit's continuing commitment to exploring sustainable transit solutions, including North America's first testing of a double-deck vehicle with emission reducing EPA 2010 certified engine as well as a zero-emission BYD electric eBus-12 which uses iron-phosphate battery technology and integrates solar panels on the bus roof, converting solar energy to electricity. • Signed a contract for the supply of 15 Vicinity medium duty buses which will deliver fuel and GHG savings when used in place of conventional, heavy duty transit buses. • Continued the partnership with the BC Scrap It Program through which BC Transit offers a monthly pass incentive for vehicle owners to scrap their older, more polluting vehicles and adopt transit. This program removed 265 tonnes of GHGs that would otherwise have been emitted in 2011.

	• Undertook energy retrofits of Victoria Regional Transit System facilities – such as the upgrade of 50% of yard lighting at the Victoria Transit Centre to LED equivalent lighting – which resulted in more than 13 per cent reduction in electricity consumption over the previous year. • Continued support of the Provincial demonstration project of the hydrogen fuel cell bus fleet in Whistler. By December 2011 the fleet had reported more than 1 million miles (1.6 million kilometres) in service since the program began in December 2009 with over 2,200 tonnes of GHG avoided in comparison to diesel buses. BC Transit submitted its Carbon Neutral Action Report for calendar 2010 during the financial year 2011/12. The report is available at http://www.livesmartbc.ca/attachments/carbon_neutral_action_reports/BCTransit_2010.pdf.
Align actions and activities to be consistent with the intent of the *Provincial Transit Plan*.	BC Transit undertook planning work and service changes in 26 communities throughout the province to improve ridership and the overall effectiveness and efficiency of transit. Transit Future Plans were completed in the Victoria Region, Campbell River, Cowichan Valley and Kamloops and nearing completion in the Central Okanagan, Abbotsford-Mission and Chilliwack. The Victoria Regional Rapid Transit Project completed a technical review and recommended Light Rail Transit as the technology required to meet *Provincial Transit Plan* ridership targets. The system would run from downtown Victoria to the West Shore and received endorsement by the BC Transit Board, the Victoria Regional Transit Commission, the CRD and the municipalities along the alignment. BC Transit and CRD have formed a joint task force to find alternate funding and transit incentives for the local share of project costs. In addition, interim options are being explored to identify the potential of bus priority improvements along the proposed rapid transit alignment in a manner that does not compromise the potential longer term implementation of LRT. For the Kelowna RapidBus Project, a Project Definition Report, defining the scope, schedule, budget, risk mitigation, communications, procurement and program management has been approved by the Project Board. Accelerated construction of the southbound McCurdy station has been completed and project is now proceeding into detailed design. The project is on schedule for completion in 2014.
Provide advice and support to the Government in the review of ownership of rapid transit assets.	BC Transit provided background information regarding the Vancouver Expo Line and West Coast Express infrastructure assets to facilitate the review of rapid transit asset ownership.
Ensure that financial targets will be achieved, as directed in the letter dated January 18, 2010, with BC Transit to have balanced budgets in each year (i.e. ensure annual expenses do not exceed annual revenues).	BC Transit's annual expenses did not exceed annual revenues for 2011/12.



31 Performance Summary

Non-GAAP Financial Measures

Forward Looking Statements

Corporate Performance

Performance Summary

Non-GAAP Financial Measures

Throughout this performance summary and management's discussion and analysis, BC Transit uses the terms "ridership", "rides per capita", "service hours", "passenger trips", "net debt service costs" and "FTEs". These terms do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles (GAAP) and, therefore, may not be comparable with the calculation of similar measures presented by others.

The terms used are considered to be industry-wide standard indicators and performance measures used throughout the North American transit industry and are used to measure the achievement of BC Transit's strategic goals. Data reliability is obtained as follows: ridership information is collected using an industry-standard reporting protocol and common definitions. (The same information is used by Statistics Canada for its Standard Industrial Classification reports). Estimates are derived using statistically valid sampling measures from sources of data which include comparisons between revenue, farebox passenger counts and automated passenger counts. Per capita estimates use population figures from the most recently published census, adjusted annually by B.C. Statistics and collated for the respective Transit Service Areas by BC Transit. Service hours delivered is calculated based on billings and operating statements in the Regional Transit Systems, which are verified by audits. Service hours delivered in Victoria are based on payroll records. Actual financial results are derived from BC Transit's audited financial statements which are prepared in accordance with the basis of accounting disclosed in the audited consolidated financial statements.

See Appendix A4 for further definitions.

Forward Looking Statements

This performance summary and management's discussion and analysis contain certain "forward looking statements." These statements relate to future events or future performance and reflect management's expectations regarding growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's internal projections, expectations or beliefs and are based on information currently available to management.

Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include ridership, the Canadian Dollar relative to U.S. Dollar, fuel costs, fleet maintenance costs, labour costs and availability, transit system request for proposal costs, insurance costs, taxation, facilities and environmental compliance and the provincial and local economies in which BC Transit operates. In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology. A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements.

In evaluating these statements, readers should specifically consider various factors including, but not limited to, the risks and uncertainties associated with funding risk, ridership risk, currency risk, commodity risk, asset risk, safety and security, environmental risk, regulatory risk, labour disruption risk and risk of default under material contracts.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this discussion and analysis are based upon reasonable assumptions, readers cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this management's discussion and analysis, and BC Transit assumes no obligation to update or revise them to reflect new events or circumstances.

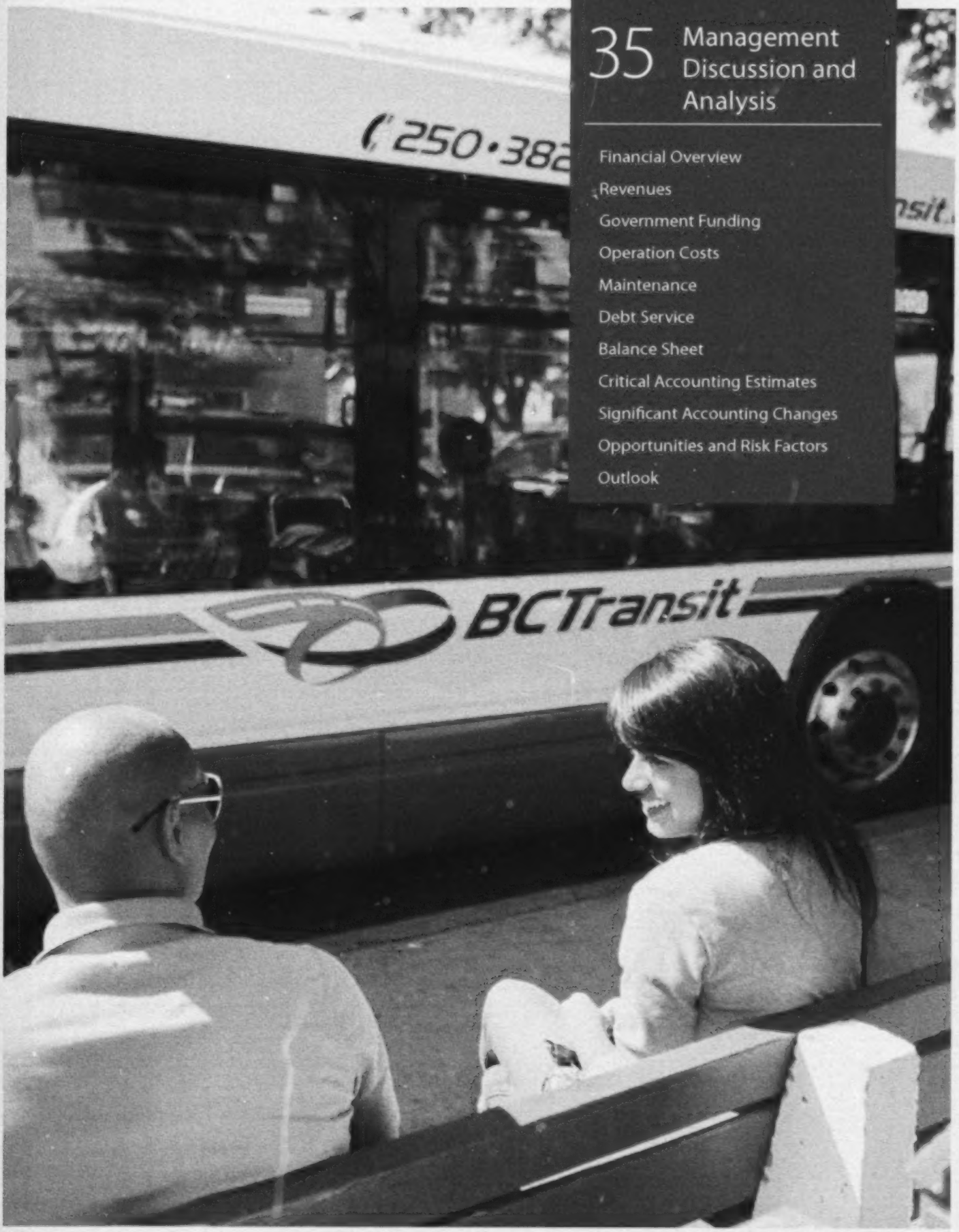
Corporate Performance

The following table summarizes revenue, operating costs, service hours and passenger trips for all BC Transit programs (Regional Transit Systems program and Victoria Regional Transit System combined) for the 2011/12 fiscal year, compared to corporate targets. Separate program level results for the Victoria Region and the Regional Systems program are provided in Appendices A1 and A2.

SUMMARY *Figures in thousands*	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Corporate Target	2012/13 Service Plan Target	2013/14 Service Plan Target	2014/15 Service Plan Target
Operating cost	$181,837	$196,684	$204,036	$214,780	$223,971	$238,230	$256,409
Passenger and advertising revenue	$60,679	$65,127	$67,847	$66,766	$68,091	$70,005	$71,817
Service hours (000s)	2,086	2,154	2,170	2,233	2,251	2,331	2,414
Passenger trips (000s)	48,753	51,204	51,585	50,096	51,849	53,093	54,368

** Total operating cost above is operations, maintenance and administration expenses on the audited financial statements*

For the purpose of presenting corporate performance and industry benchmarking, operating cost includes cost of operations, maintenance and administration but excludes interest and amortization consistent with industry practice.



35 Management Discussion and Analysis

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Management Discussion and Analysis

Dated May 24, 2012

The following is management's discussion and analysis of the financial condition and results of operations for BC Transit as of May 24, 2012. This should be read in conjunction with our audited financial statements and related notes for the years ended March 31, 2012 (fiscal 2012) and March 31, 2011 (fiscal 2011). These documents are available at: http://bctransit.com/corporate/general_info/annual_reports.cfm

Except where indicated, all financial information herein is expressed in thousands and Canadian dollars.

Financial Report	2007/08 Actual *	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Target	2011/12 $ Variance (Un)Favourable	2011/12 % Variance (Un)Favourable
Revenue								
Passenger & advertising revenue	55,925	59,632	60,679	65,127	67,847	66,766	1,081	1.6%
Investment and other income	3,380	2,859	4,205	3,404	2,947	2,188	759	34.7%
Provincial contributions	58,126	71,874	79,105	83,971	88,065	90,875	(2,810)	(3.1%)
Amortization of deferred capital contributions on capital assets	7,237	9,743	14,024	30,151	27,183	30,929	(3,746)	(12.1%)
Contributions from municipalities	47,606	53,847	60,840	66,793	75,483	86,898	(11,415)	(13.1%)
Total Revenues	172,274	197,955	218,853	249,446	261,525	277,656	(16,131)	(5.8%)
Expenditures								
Operations	98,031	114,437	124,025	137,102	142,652	145,921	3,269	2.2%
Maintenance	30,226	36,237	37,772	38,125	39,375	45,011	5,636	12.5%
Administration	16,600	18,752	20,040	21,457	22,009	23,848	1,839	7.7%
Debt Service	25,127	28,253	36,177	55,797	58,120	62,876	4,756	7.6%
Total Expenditures	169,984	197,679	218,014	252,481	262,156	277,656	15,500	5.6%
Net Income (Loss) From Transit Operations	2,290	276	839	(3,035)	(631)	0	(631)	0.0%
Non-Operating Items:								
Vancouver assets – amortization expense	(32,654)	(32,654)	(32,654)	(32,654)	(32,654)	(32,654)	0	0.0%
Vancouver assets – amortization of deferred capital contributions	31,242	31,242	31,242	31,242	31,242	31,242	0	0.0%
Gain (loss) on disposal of assets	(94)	(329)	0	242	11	0	(11)	0.0%
Gain (loss) on foreign exchange and derivatives	821	(1,073)	273	375	620	0	(620)	0.0%
Net Profit from Olympic and Paralympic Games	0	0	18	0	0	0	0	0.0%
Net Revenues (Expenditures) for the Year	1,605	(2,538)	(282)	(3,830)	(1,412)	(1,412)	0	0.0%
Capital expenditures								
Vehicle	35,893	63,933	122,823	12,394	10,474	53,059	42,585	80.3%
Non-Vehicle	2,399	5,041	28,094	26,846	27,687	109,291	81,604	74.7%
	38,292	68,974	150,917	39,240	38,161	162,350	124,189	76.5%
FTEs (as at year end)	706	760	825	846	846	843	(3)	(0.4%)
Service hours 000's	1,827	2,011	2,086	2,154	2,170	2,233	(63)	(2.8%)
Passenger trips 000's	44,684	47,576	48,753	51,204	51,585	50,096	1,489	3.0%

** Excludes impact of changes in accounting policies adopted during 2008/09*

The presentation in the table above is consistent with historical presentation and is different from that presented in the audited financial statements, primarily, due to the separate disclosure of debt service. Under Canadian public sector accounting principles, these costs are allocated by object accounts (operations, maintenance and administration). The format of presentation above is more consistent with industry practice and allows for historical and industry benchmarking.

Note that the net loss reported of $1.4 million is a result of incremental amortization expense of $1.4 million relating to the Vancouver assets which is in excess of the related grant amortization. This difference reverses through Accumulated Surplus.

Financial Overview

Total revenues were $12.1 million or 4.8 per cent higher than the prior year due to increases in Provincial operating contributions, deferred capital grant amortization, local contributions and passenger revenue. Total revenues were lower than target by $16.1 million or 5.8 per cent due to lower operating and capital costs resulting in lower contributions from the Province and local governments.

Total expenditures were $9.7 million or 3.8 per cent higher than the prior year as a result of increases service expansion, capital replacement and inflationary operating cost pressures such as fuel. Total expenditures were lower than target by $15.5 million or 5.6 per cent due primarily to fewer than anticipated service hours.

Revenues

Passenger and advertising revenues

Results for 2011/12 were favourable by $1.1 million or 1.6 per cent from target.

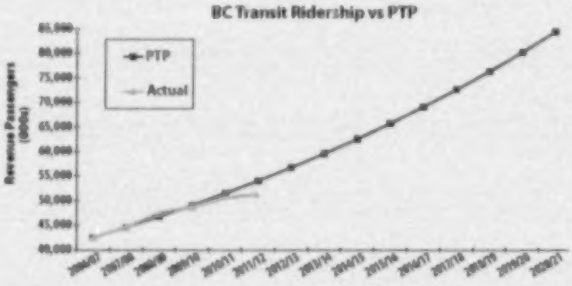
Passenger revenues were higher due to higher than anticipated ridership and higher average fares. Average fares increased corporately from $1.26 per ride to $1.31 per ride (includes conventional and custom). The increase in average fare or yield per ride is attributed to:

- the implementation of electronic fareboxes in all major systems;
- the introduction of a new transfer policy in the Victoria Regional Transit System which reduced fare evasion;
- proactively advising local governments on fare structures including the implementation of fare changes in 15 communities; and
- higher UPASS program revenues including the addition of Royal Roads University.

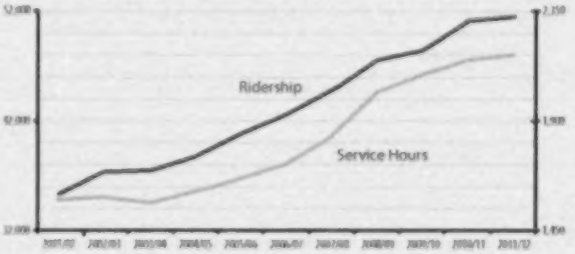
Advertising revenue was 7.2 per cent or $57,000 above target.

The *Provincial Transit Plan* has set aggressive ridership targets whereby the goal is to double ridership in 15 years. Targeted growth is 5 per cent per annum throughout the term of the *Provincial Transit Plan*.

The baseline year is 2006/07. Accumulated ridership growth from the base year is 21.3 per cent, or 5 per cent less than the cumulative annual growth target set by the *Provincial Transit Plan*. The trend to date against *Provincial Transit Plan* is shown below:



Increases in ridership are a function of increased expansion (service hours) and investments in public transit (fleet, facilities, transit exchanges, park & rides, etc) as well as economic conditions such as fuel pricing, demographic and population changes. The relationship between ridership and service hour growth is illustrated below.



Ridership was higher than target by 3.0 per cent and increased year over year by 0.7 per cent, in the same proportion as the increase in service hours year over year of 0.7 per cent.

A number of communities experienced higher growth in ridership during 2011/12, including:

- Castlegar – 61 per cent
- Cowichan Valley Commuter – 29 per cent
- Salt Spring Island – 29 per cent
- Cowichan Valley – 15 per cent
- Powell River – 14 per cent
- Prince George – 12 per cent
- Campbell River – 9 per cent
- Vernon Regional – 9 per cent
- Cranbrook – 5 per cent
- Sunshine Coast – 5 per cent

Ridership growth continues to be influenced by population growth, growing concern for the environment, increasing fuel prices and the slow economic recovery. Several initiatives were also implemented by BC Transit to increase ridership including investments in marketing campaigns, technology such as Google™ Transit online trip planning and capital investments and operational improvements that were focused on customer service delivery.

2011/12 focused efforts on Transit Future Plans, service and system service reviews. Transit Future Plans chart long term transit system growth and align transit investment with supporting land use and designated priority corridors. Plans were completed in Victoria, Campbell River, Cowichan Valley and Kamloops and nearing completion in the Central Okanagan, Abbotsford-Mission and Chilliwack. Service reviews to look at immediate and short term opportunities to improve system ridership and efficiency were completed or in progress in Victoria, Whistler, Cowichan Valley Commuter, Penticton, Vernon Regional, Clearwater, Columbia Valley, Creston, Dawson Creek, Elk Valley, Fort St. John, Kicking Horse Country, Nelson, Port Alberni, Salmon Arm, Salt Spring Island and Squamish.

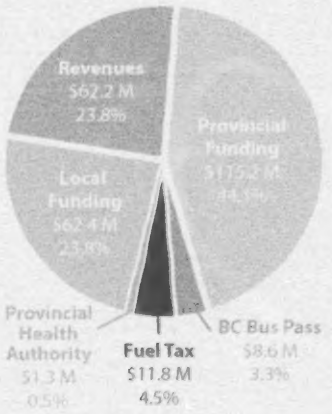
There are and will continue to be significant challenges and opportunities in expanding the level of service and capital infrastructure required to meet the targets of the *Provincial Transit Plan*. 2011/12 results include service hour reductions that impacted ridership. The Whistler transit system had an 11 per cent decrease in ridership year over year as a result of an 18.0 per cent service reduction. Additionally, during the year the Sea-to-Sky commuter service was cancelled by local funding partners. Overall, 29,000 service hours were reduced in the year as a result of local government funding constraints.

Government Funding

Contribution from the Province

The Provincial operating contribution has grown by 69.1 per cent since 2006/07. The Provincial operating contribution is targeted at $96.6 million for 2012/13, representing a 6.3 per cent increase from 2011/12.

In 2011/12, BC Transit recovered 47.9 per cent of its total expenditures from the Province of British Columbia through grants, BC Bus Pass funding and Health Authority funding. The Province is the largest funding contributor with the remaining 23.8 per cent recovered from passenger revenues, 23.8 per cent recovered from local funding partners and 4.5 per cent recovered from fuel tax. The components of revenue are summarized below.



** Fuel tax applies to the Victoria Regional Transit System*

These Provincial contributions are the highest level of funding commitment in Canada and are based on legislated cost share formulae for both operating and capital expenditures. The Province remains committed towards public transit, as demonstrated by the continued increase in contributions during an extended time of economic uncertainty and challenge. Provincial contributions will continue to increase throughout the 2012/13 – 2014/15 Service Plan period.

Local Taxation

Funding from local taxation sources are 23.8 per cent of total revenues contributed. Local taxation revenues increased year over year by $8.3 million or 15.4 per cent. This increase in contributions year over year from local governments is due to service expansion, general cost increases and capital investments. The local government share of transit expenditures is based on cost sharing formulae and is funded by the combination of passenger revenue and local taxation as the residual funding source. Local taxation revenue sources were less than budget by $11.4 million or 13.1 per cent as a result of higher passenger revenues and lower operating and capital expenditures.

Operating Costs

Operating costs are defined as the sum of all costs associated with the operation, maintenance and administration of transit excluding depreciation and interest paid on loans for capital expenditures.

Figures in thousands	20010/11 Actual	2011/12 Actual	2011/12 Target	Variance $	Variance %
Operations	137,102	142,652	145,921	3,269	2.2%
Maintenance	38,125	39,375	45,011	5,636	12.5%
Administration	21,457	22,009	23,848	1,839	7.7%
Total	**196,684**	**204,036**	**214,780**	**10,744**	**5.0%**
Operating Cost Per Hour	$91.31	$94.03	$96.18	$2.16	2.2%
Operating Cost Per Passenger Trip	$3.84	$3.96	$4.29	$0.33	7.7%

Operating Costs

Total operating expenses were less than target by $10.7 million or 5.0 per cent (year over year increased by $7.4 million or 3.7 per cent).

Cost efficiency, as measured on a cost per hour basis was favourable to target by 2.2 per cent and increased year over year by 3.0 per cent. Industry cost pressures, as reflected by operating costs per hour, have trended at 4 – 6 per cent per annum; accordingly, the current year's results have met expectations and reflect management's continued focus to contain costs and cost efficiency. Operating cost per passenger trip was 7.7 per cent less than target (3.1 per cent increase year over year). This reflects ridership increasing at a rate consistent with the increase in cost of service.

The specific components of total operating costs are analyzed below.

Operation Costs

	2010/11	2011/12		Variance From Target	
	Actual	Actual	Target	$	%
Operations (excl. fuel)	113,307	114,236	118,516	4,280	3.6%
Fuel	23,795	28,416	27,405	(1,011)	(3.7%)
Total Operations	**137,102**	**142,652**	**145,921**	**3,269**	**2.2%**
Operations Cost/Hour	**$63.65**	**$65.74**	**$65.35**	**($0.39)**	**(0.6%)**

Operations costs are comprised of putting service on the road and include operator wages and benefits, fuel, insurance, uniforms, depot and other costs directly attributable to operations. Labour and materials includes contracted operating systems. Operations costs were $3.3 million or 2.2 per cent lower than target and $5.6 million (4.0 per cent) greater than 2010/11. The two primary cost drivers for operations expenses for BC Transit are service expansion and fuel, with fuel generating the most significant volatility in operations expenditures. On a cost per hour basis, actual cost of operations exceeded target by less than one per cent due to higher fuel costs.

Service Expansion

Total service hours increased year over year by 16,000 hours or 0.7 per cent and are comprised of both service expansions and reductions. Service expansions included Central Fraser Valley, Nanaimo, Chilliwack, Cowichan Valley, Sunshine Coast, Dawson Creek, Merritt, Port Edward, Quesnel, Salt Spring Island and Williams Lake.

Offsetting service expansion in 2011/12 were service reductions that were primarily as a result of local government funding pressures. The most extensive service reductions occurred in Whistler (12,300 hours), cancellation of the Sea-to-Sky Commuter service (5,000 hours), Kelowna Regional (net of 3,500 hours), the Nelson region (1,500 hours), Cranbrook (800 hours), Pemberton (384 hours) and the Victoria Regional Transit System (7,000 hours). In March 2012, the Victoria Regional Transit Commission approved the reinstatement of the 7,000 hours that were cut in 2011/12.

In 2012/13, expansion will be focused on services that improve existing systems, increase ridership, and support communities moving towards a more sustainable future. BC Transit's funding partners, both provincial and local partners, continue to support the expansion of the program in spite of difficult economic conditions. Regardless, both provincial and local funding partners are constrained by global and local economic conditions making expansion funding more difficult to sustain.

Fuel

Fuel price was budgeted corporately at $1.10 per litre for the year ended March 31, 2012 resulting in a total budget of $27.4 million. Actual results were $28.4 million, $1.0 million or 3.7 per cent higher than budget. This unfavourable variance is primarily attributable to higher rack prices throughout the year subsequent to budget development. The actual average price per litre was $1.16 for the fiscal year.

	2010/11	2011/12		Variance From Target	
	Actual	Actual	Target	$	%
Fuel volume (000s litres)	23,328	24,497	24,914	417	1.7%
Fuel price per litre	$1.02	$1.16	$1.10	($0.06)	(5.5%)
Total fuel cost	**$23,795**	**$28,416**	**$27,405**	**$1,011**	**3.7%**

A summary of world oil prices as measured in West Texas Intermediate (USD/bbl) against gasoline rack pricing (BC average) for the last 18 months is presented in the table on the following page.

Source: GasBuddy.com

When the 2011/12 budget was developed, world oil prices were averaging around US$80/bbl and volatility ranged + / – $5/bbl. Rack pricing during this term did not react significantly to the volatility. In February 2011, after budget development for fiscal 2012 was concluded, prices increased significantly to $114/bbl. Pricing volatility and upward pressure was driven from geopolitical pressures in the Middle East and Africa and financial market uncertainties. World oil prices temporarily declined; however, rack prices remained relatively high and over budgeted price throughout the fiscal year.

Management mitigates fuel price volatility and price increases through two primary methods. Firstly, by aggregating BC Transit's provincial fuel volumes under a successful fuel procurement process, BC Transit receives an annual average volume discount from posted rack rates for volume purchases. Management also has a commodity price risk management program whereby it locks-in fixed price physical contracts.

During the year, premiums to lock-in fixed price physical contracts ranged from 1.2 to 9.9 c/litre building in a higher risk premium given the increased uncertainty in world markets. Oil futures contracts have simultaneously reacted by pricing in the risk premium. Management monitors locking-in fixed pricing on fuel supply; however, due to rack pricing relative to budget throughout the year and the significant premium attached to fixing prices, an agreement was not executed in the fiscal year. Management is exploring other strategies to manage the increasing cost pressure and volatility associated with fuel prices.

As at the date of this report, approximately 28 per cent of total estimated fuel consumption for 2012/13 is under fixed price agreements at a blended price of $1.22 / litre or $0.04 / litre under budgeted 2012/13 fuel pricing. This achieves both budget savings as well as certainty for provincial and local funding partners. Management is also exploring strategic partnerships with other significant fuel users.

Looking forward, market uncertainty remains high. Crude oil prices are at their highest levels since 2008, prior to the economic crisis and subsequent global recession. Political unrest in oil producing countries have impacted supply but have more significantly impacted pricing which has built in a substantial risk premium. Pricing, current and futures, has also been impacted by:

- Inventory supplies;
- Increasing demand from developing economies;
- Diminishing oil reserves replacement (supply);
- Investors and asset managers who have shifted a significant amount of funds into commodities and emerging markets over the last three years;
- Uncertainties over global economic recoveries, primarily in the US and Europe; and
- Geopolitical risks and uncertainties.

It is anticipated that higher fuel costs will increase the cost of raw materials which could prolong an already uncertain economic recovery. As a result, oil futures pricing curves are on a decline for the next four years and then begin to increase thereafter.

Fuel costs were also impacted by external factors that increased the volume of fuel used. For instance, while 2011/12 service hours increased by 0.7 per cent over the previous year, fuel volumes increased by 5 per cent. This difference relates to the impacts of congestion which increased the time that vehicles idled in traffic, weather extremes which impacted fuel used for vehicle heating and cooling systems and changes to service and vehicle composition which impacted fuel efficiency.

Maintenance

	2010/11	2011/12		Variance From Target	
	Actual	Actual	Target	$	%
Fleet Maintenance	31,230	32,122	37,246	5,124	13.8%
Facilities Maintenance	6,895	7,253	7,765	512	6.6%
Total Maintenance	**38,125**	**39,375**	**45,011**	**5,636**	**12.5%**
Fleet Maintenance Cost/Hour	$14.50	$14.80	$16.68	$1.88	11.3%
Facility Maintenance Cost/Hour	$3.20	$3.34	$3.48	$0.13	3.9%

Fleet Maintenance

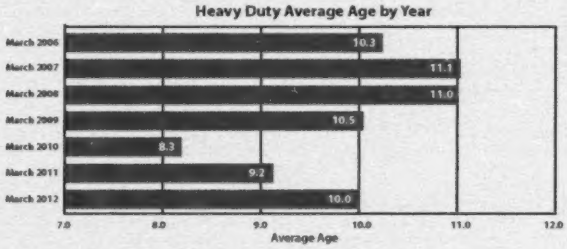
Total fleet maintenance was favourable to target by $5.1 million or 13.8 per cent (an increase from 2010/11 of $0.9 million or 2.9 per cent). The favourable variance from target is primarily attributable to lower than anticipated expansion as well as savings within the Regional Systems where there has been increased fleet inspections, implementation of the major capital maintenance program, warranty recoveries as well as the impact of the preventive maintenance program.

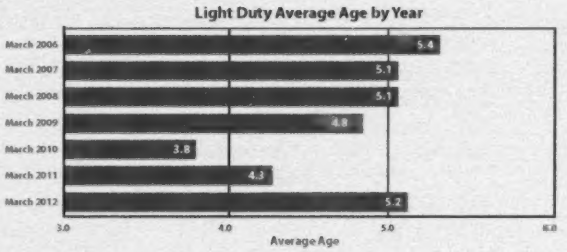
Fleet maintenance expenditures are a function of expansion, inflationary costs, fleet age and fleet diversity. On a cost per hour basis, fleet maintenance was below target by $1.88 /hour or 11.3 per cent and increased year over year by $0.30 / hour or 2.1 per cent and is attributed primarily to inflationary pressures on materials.

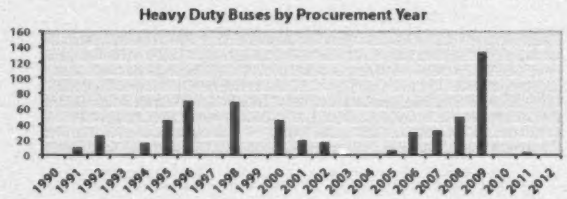
Maintenance costs for running repairs, major component overhauls and mid-life tune-ups are largely attributable to the age of the fleet, increasing costs of parts, labour and outside service providers, and the technological complexity of newer vehicles. This includes complexity due to increasingly stringent environmental standards. Maintenance costs are also impacted by the Canadian dollar, higher shipping costs, diminishing options in the supply chain network and base metal costs. Most parts originate from American or European suppliers.

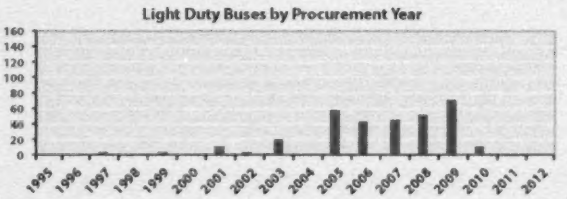
BC Transit's fleet replacement and expansion capital plan will in part mitigate some of these cost pressures in future years.

As at March 31, 2012, BC Transit totaled 1,001 buses comprising of high capacity buses (65), heavy duty buses (574), medium duty buses (55) and light duty buses (307). The charts below summarize the average age of the heavy duty and light duty buses. Heavy duty buses have an amortized life of 13 – 20 years and light duty buses have a life of 5 years.









Maintenance costs for older fleets increase significantly as they near the end of their useful life, particularly those in which significant maintenance has been deferred. However, depending on the costs of major capital investment, lifecycle analysis can indicate it is still economic to maintain these vehicles rather than replace them outright and incur significant write-offs in addition to accelerated fleet replacement debt service charges. Additionally, the increasing complexity of the transit fleet to improve environmental performance and passenger comfort continues to contribute to increased parts costs and resource demands. A significant amount of the conventional fleet requires upgrades and major retrofits; particularly those fleet assets that have reached their mid-life.

Most of the fleet has a 20 year estimated useful life. Conventional fleet with a 20 year useful life requires significant refurbishment and major capital maintenance; particularly at mid-life. Older assets require significant maintenance in order to meet

their full economic life. These costs are offset by the acquisition of a significant amount of new fleet for both replacement and expansion in the year.

In 2009/10, BC Transit undertook a lifecycle cost analysis on new vehicles. The lifecycle cost analysis included acquisition cost, major capital maintenance, running repairs, fuel economy, parts obsolescence, environmental impact and supply chain costs. The industry standard for fleet life has reduced as many transit agencies now amortize and replace fleet based on a 12–14 year life. BC Transit's analysis recommended asset life on future fleet acquisitions be reduced to the industry standard. This will result in a significant reduction in major capital maintenance including mid-life refurbishments.

To better manage and maintain the fleet, management has developed a Long Range Maintenance Plan (LRMP). The LRMP includes analysis of the existing and planned future fleet, maintenance requirements, capacity and labour constraints and funding requirements. Future fleet maintenance will be conducted under the LRMP to ensure the most efficient and effective use of assets. It will also result in a maintenance program that is proactive rather than reactive in nature.

Another major improvement in vehicle asset management was the introduction of "asset componentization" which was adopted in 2010. Under componentization, assets are capitalized and amortized on a "component" basis rather than a "single asset" basis. Under a component approach, an asset is broken down into its major components that have significantly different useful lives. As a result of the change, a significant portion of the expenditures incurred under BC Transit's Long Range Maintenance Plan which were previously expensed are now capitalized and amortized over their estimated useful lives.

Component-based capitalization and amortization more accurately reflects asset capitalization principles and the useful life of the long range maintenance plan expenditures. It also provides increased comparability between both current and future industry practice. Shifting component replacement to the capital program results in improved program oversight and mitigates the volatility and impact of significant maintenance costs being incurred in a given year – also resulting in improved funding predictability for all funding partners.

Other asset management initiatives implemented during 2011/12 include:

- $1.0 million in fleet warranty claims;
- High efficiency light upgrades in garage facilities;
- Completion of the 2011/12 fleet major capital maintenance program;
- Completion of low floor community bus trial (Vicinity bus) – successfully negotiated contract for the purchase of 15 buses;
- Completion of EPA2010 double deck vehicle certification;
- Implementation of province-wide electronic farebox program; and
- Fuel cell bus demonstration fleet reached one million service miles (1.6 million kilometres).

Facilities Maintenance

Facilities maintenance costs were lower than target by $0.5 million or 6.6 per cent (an increase from 2010/11 of $0.4 million or 5.2 per cent). The favourable variance from target is primarily a result of lower than anticipated snow removal costs. Many of BC Transit's facilities are near the end of their useful life and require increasing repair and modifications to meet the physical requirements of expanding service levels. In addition, a number of facilities are at or operating beyond capacity which is a driver for maintenance costs and future facilities expansion. Increased growth and expansion of the fleet to meet *Provincial Transit Plan* targets will put additional pressure on existing facilities.

The capital plan includes a long-term phasing strategy for facilities. Capital planning initiatives are underway to deal with the capacity issues summarized in the following table.

Location	Land	Building	Construction Date	Estimated Remaining Capacity
Victoria Custom	owned	owned	1987	-43%
Kelowna	leased	owned	1999	-20%
Kamloops	owned	owned	1982	-20%
Central Fraser Valley	leased	leased	2000	-18%
Victoria Garage	owned	owned	1952	-13%
Langford	leased	owned	1998	-2%
Dawson Creek	leased	leased	2002	0%
Fort St. John	leased	leased	1979	0%
Campbell River	leased	leased	1990	5%
Trail	leased	leased	1981	5%
Victoria Administration	owned	owned	1989	8%
Whistler	leased	owned	2009	20%
Vernon	leased	owned	2011	50%

** Estimated facility capacity is based on bus parking, maintenance bays, office and fueling capacity.*

Debt Service

Description	2010/11 Actual	2011/12 Actual	2011/12 Target	Variance From Target
Amortization of Capital Assets	46,644	47,218	48,047	829
Long Term Debt Interest	9,153	10,902	14,829	3,927
Debt Service Cost	55,797	58,120	62,876	4,756
Amortization of Deferred Capital Contributions	30,151	27,184	30,929	3,745
Sinking Fund Interest *	1,871	2,283	2,188	(95)
Net Debt Service Cost	23,775	28,653	29,759	1,106

** A component of Investment and Other Income*

Construction of a new operations and maintenance facility in Vernon was completed and in-service in November 2011. Construction also commenced on a new operations and maintenance facility in Kamloops in May 2011, with the opening expected in July 2012 and will resolve the facility capacity issues that exist at the Kamloops site.

Administration

	2010/11	2011/12		Variance From Target	
	Actual	Actual	Budget	$	%
Administration	21,457	22,009	23,848	1,839	7.7%
Administrative Cost/Hour	$9.96	$10.14	$10.68	$0.54	5.0%

Total administration expenses were $1.8 million or 7.7 per cent favourable to target ($0.6 million or 2.6 per cent over 2010/11). All employees within the Victoria Regional Transit System and BC Transit shared services have been within the "net zero" provincial mandate over the last two fiscal years (three years for exempt staff). In 2011/12, BC Transit completed an internal review that resulted in a 9 per cent reduction in exempt staff.

Corporate initiatives to meet the goals of the *Provincial Transit Plan* have contributed to increased administrative costs, including climate action initiatives, increased safety and security measures and increased expenditures on long term transit planning (Transit Future Plans), information technology, business development and supporting shared services for all transit systems.

Administrative costs face on-going pressures, many of which include increased support and demands from provincial and local funding partners and customers.

Other cost drivers are regulatory including compliance with increasing environmental, procurement, accounting and legal standards. Regardless of these cost pressures, BC Transit's administrative costs benchmark well below national averages primarily due to the shared services business model which achieves significant economies of scale. BC Transit will continue to leverage the strength of the shared services model and achieve greater operational, capital and financial efficiencies as it continues to experience significant demand for both public transit and shared services expertise.

Debt Service

Net debt service costs represent those capital program costs recoverable from local partners and is summarized in the table above. Vancouver assets are not included as they are funded by a capital grant from the Province. The lower than targeted net debt service cost is primarily attributable to the later than planned capital spending and anticipated in-service dates relating to project timing on bus acquisitions, facilities, information technology and major capital maintenance expenditures.

Other Revenues and Expenditures

Investment and other income of $2.9 million are higher than target by $0.8 million. This balance consists of interest earned on bank deposits, short term deposits and debt sinking funds and other special purpose funding. The variance from target is due to higher than expected rate of return on the sinking fund investments and returns on surplus funds invested in the year.

Foreign exchange and derivatives of $0.6 million consist of gains from the revaluation of foreign currency balances.

Balance Sheet

BC Transit operates on a cost recovery basis. Consequently, transit operations do not generate changes in the corporate balance sheet other than working capital shifts caused by the timing and realization of expenditures as well as the impact of the capital expenditure program.

The capital program and its related financing is the major balance sheet driver. In this regard, BC Transit is increasing capital expenditures in line with *Provincial Transit Plan* goals. Capital grants from federal and provincial funding partners are accounted for as deferred contributions and amortized on the same basis as the related asset. The local share of expenditures is financed by fiscal agency loans arranged through the Debt Management Branch of the Ministry of Finance. Debt service costs are recovered from the local partner.

Capital Expenditures

Significant expenditures in 2011/12 included:

	$ Thousands
Facilities Projects	$24,770
Vehicle Projects	$10,470
Rapid Transit Projects	$750
Other (farebox, equipment, IT)	$2,170
Total Capital Expenditures	**$38,160**

Facilities projects represented the majority of capital expenditures in 2011/12. The McTavish Park & Ride in the Victoria Region, the Vernon operations and maintenance facility and the Kamloops operations and maintenance facility comprised 45 per cent of total capital spending. Strategic land acquisitions for the future Uptown Exchange and a new operations and maintenance facility in Victoria also contributed to the expenditures within this category.

Vehicle expenditures are largely attributed to the major refits program which accounted for 19 per cent of total spending. In addition, BC Transit purchased its first EPA 2010 bus. The bus includes several technology options that will be trialed for possible inclusion in future bus purchases.

Several smaller projects were also completed in 2011/12, including the purchase of new brake testing and wheel alignment machines for Victoria, the installation of new, upgraded shelters across the province, and technology upgrades to critical IT systems.

The 3 year capital plan as presented in the 2012/13-2014/15 service plan is summarized below:

(figures in 000's)	2012/13	2013/14	2014/15	Total
Province – Capital Grants	40,174	38,554	48,535	127,263
Municipalities – Fiscal Agency Loans	38,465	38,350	55,729	132,544
Other	11,734	10,393	5,613	27,740
Total Capital Projects	**90,373**	**87,297**	**109,877**	**287,547**

The 2012/13 Capital Plan aligns with the assumptions used for the development of the 2012/13 – 2014/15 Service Plan.

While total forecast expenditures of $90.4 million in 2012/13 are significantly higher than 2011/12 spending, the 2012/13 Capital Plan balances the need to upgrade, replace or expand ageing infrastructure with local affordability concerns. The plan focuses on the replacement of core assets required to maintain or modestly grow the existing transit system for the next five years. While the expansion vehicle program has been retained, every effort will be made to meet service hour increases without significant additions to the fleet. Facility, exchange and park & ride expansion projects that do not have explicit local funding approval, or a high likelihood of receiving approval, have been removed or deferred outside of the five year plan. These projects will be revisited annually as local partner approvals are received.

Hydrogen Fuel Cell Program

BC Transit is leading the way in adopting new technologies that support sustainable practices and reduce greenhouse gas emissions. From introducing North America's first low-floor conventional and double-deck buses, to using hybrid technology within its fleet, BC Transit is delivering the world's largest demonstration fleet of hydrogen fuel cell powered buses operating in a single location.

The demonstration fleet supports the:

- Hydrogen Highway;
- Clean Transportation Technology Initiative;
- BC Climate Action Plan; and
- *The Provincial Transit Plan*.

The incremental cost of the program is funded by the Government of Canada and Province of British Columbia. BC Transit is the crown corporation charged with the delivery, operation and evaluation of the demonstration fleet.

During the 2010 Olympic and Paralympic Winter Games, the world's largest demonstration fleet of hydrogen

fuel cell powered buses operating in a single location was showcased in Whistler. The zero emission buses were developed as part of the Government of British Columbia's plan to reduce greenhouse gas emissions by 33 per cent by 2020. The project includes 20 hydrogen fuel cell buses and the infrastructure required for fuelling. The fueling infrastructure represents the largest hydrogen transportation fueling station in the world.

The total budget of the demonstration project is $89.5 million, covering capital and operating costs to March 2014. The funding partners are:

- Government of Canada ($45 million through the 2006 Public Transit Capital Trust Fund)
- Government of British Columbia ($26.7 million)
- Resort Municipality of Whistler ($16.8 million)
- Canadian Hydrogen Fuel Cell Association ($1 million)

Lifecycle costs for the fuel cell buses will be evaluated over the program to determine how they compare to existing internal combustion engine technology.

Working Capital Changes

Cash and cash equivalents increased year over year by $33.9 million due primarily to the timing of financing in advance of related capital expenditures. Accounts receivable increased year over year by $3.1 million and is related to timing of billing and collection from local funding partners. Accounts payable and accrued liabilities are up year over year by $7.8 million due to capital funding received in advance of capital expenditures from the Province and repayable at March 31, 2012.

Total debt outstanding as at March 31, 2012 is $240.7 million (March 31, 2011 - $206.4 million). Under the *British Columbia Transit Act*, BC Transit is subject to a $500 million borrowing limit. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request. Debt is comprised of sinking fund bonds with a weighted average interest rate of 4.6 per cent, maturing at various dates to 2040 and amortized from five to 30 years.

Accumulated Surplus

As at March 31, 2012, accumulated surplus was $59.1 million.

Critical Accounting Estimates

The preparation of BC Transit's financial statements requires management to adopt accounting policies that involve the use of significant estimates and assumptions. These estimates and assumptions are developed based on the best available information and are believed by management to be reasonable under the existing circumstances. New events or additional information may result in the revision of these estimates over time. A summary of the significant accounting policies used by BC Transit can be found in the notes to the financial statements.

Significant Accounting Changes

The consolidated financial statements are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia. The audited consolidated financial statements disclose the significant accounting policies under this basis of accounting. These are BC Transit's first consolidated financial statements prepared in accordance with Public Sector Accounting Standards and PSA 2120, First-time Adoption by Government Organizations, has been applied. BC Transit has elected to early adopt Section PS 1201 Financial Statement Presentation, PS 3410 Government transfers, PS 2601 Foreign Currency Translation, and PS 3450 Financial Instruments in the preparation of these consolidated financial statements.

Basis of accounting:

In March 2011, PSAB released a new Public Sector Accounting Standard PS 3410 "Government Transfers". In November 2011, the Province of British Columbia Treasury Board ("Treasury Board") provided a directive through Restricted Contributions Regulation 198/2011 providing direction for the reporting of restricted contributions whether they are received or receivable by BC Transit before or after this regulation was in effect. The Treasury Board direction on the accounting treatment of restricted contributions is as described in Note 2(c)(i) and 2(c)(ii).

Future accounting policy changes:

In June 2010, PSAB issued PS 3260 Liability for Contaminated Sites. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the Section are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is evaluating the impact of PS 3260, which will be adopted for fiscal 2015.

Opportunities and Risk Factors

Long Term Funding

Both local and provincial funding partners confirm budgets annually. Consequently, only the current year's funding levels are committed. Subsequent years' funding will be impacted by prevailing economic conditions.

Ongoing economic uncertainty can impact transit programs. Ridership may decline as overall travel usually decreases in a slower economy. Local governments fund transit system expenditures with passenger revenues (2011/12 – 23.8 per cent), property taxes (2011/12 – 23.9 per cent) and in the Victoria Regional Transit System, fuel tax (2011/12 – 4.5 per cent). Therefore, local governments absorb the risk of revenue shortfalls when they may occur.

The funding requirements for infrastructure replacement, operating cost inflation and expansion will continue to put pressure on provincial and local governments to fund user demand for service. The occurrence of service reductions has increased in the province as local communities balance their service level demands with affordability.

Fuel Prices

The most volatile financial risk is fuel pricing. Fuel price volatility remains high. BC Transit utilizes a fuel management program to mitigate the risk of fuel price volatility. The program includes entering into targeted fixed price supply agreements on a portion of fuel consumption to contain the cost volatility and identifying other initiatives to realize cost savings to market such as large volume bulk purchases to mitigate risk.

Maintenance

The cost of fleet maintenance continues to increase year over year. Maintenance costs for running repairs, major component overhauls and mid-life tune-ups are largely attributable to the age of the fleet, increasing costs of parts and the technological complexity of newer vehicles. Maintenance costs may also fluctuate due to volatility in foreign exchange as most parts originate from American or European suppliers.

To mitigate volatility associated with maintenance costs, BC Transit utilizes a preventative maintenance program that is proactive rather than reactive in nature. Major capital maintenance expenditures are also capitalized and amortized over their estimated useful lives to reduce volatility.

Labour Force Challenges

Additional new jobs will be required by contract operators delivering transit service in the remainder of the province to meet expected retirements and expansion. Loss of, or failure to attract and retain, key personnel could have an adverse effect on the ability to deliver the Service Plan.

BC Transit administers three collective agreements. Unionized employees are represented by Canadian Autoworkers (CAW), Canadian Office & Professionals Employee's (COPE), and the Canadian Union of Public Employees (CUPE). The CAW and COPE agreements expired March 31, 2012 and the CUPE agreement expires on December 31, 2012. Should BC Transit be unable to negotiate an acceptable contract after any of these collective agreements expire with any of the unions, a labour disruption or work stoppage could occur.

Furthermore, BC Transit relies on third parties – such as transit management companies – some of whose workforces are also unionized. If those workers engage in strike or other similar work stoppages, operations of BC Transit systems could be disrupted.

Taxation

Changes in taxation legislation and regulatory requirements may have a financial impact. On August 26, 2011, the Province announced the reinstatement

of the combined 12 per cent PST and GST tax system following a referendum decision by British Columbians to extinguish the HST. This will negatively impact the cost of capital programs but positively impact the cost of contracted services after the transition back to PST and GST.

Other regulatory changes that could have a financial impact include environmental legislation and changes to procurement and other accounting requirements.

Economic Uncertainty

The current economic uncertainty is affecting transit programs in many ways. The volatility of commodity prices and currency rates, in particular with respect to oil and metals, has a direct impact on the cost of providing transit services. Economic downturns can also reduce transit ridership as overall travel usually decreases in a slower economy.

Alternatively, the economic downturn may result in a softening of contracted services rates if local labour markets cool off. BC Transit will be working closely with its local partners to monitor transit systems performance. Prudent financial management practices will be used to control costs and ensure performance is maintained in the top quartile of transit properties.

Growing Demand

Throughout the province, BC Transit services are experiencing unprecedented demand. Transit ridership has also been influenced by growing concern with respect to the environment and the costs of driving. However, in several communities demand exceeds the fiscal capacity of the transit system to respond and expand. The continued rapid growth challenges the fiscal capacity of funding partners to supply additional service, expanded bus fleets and associated infrastructure.

Organizational Capacity

One major area that impacted BC Transit's capacity to meet its objectives in 2011/12 was local government ability to fund transit. While demand for transit remains strong, the slower economy and competing municipal infrastructure priorities resulted in less local government capacity to fund new transit improvements or the full complement of existing services. This declining funding ability meant that some service expansions were delayed or cancelled and that service in a number of systems was reduced.

There were also challenges around the provincial transit labour force, particularly in the recruitment and retention of maintenance staff, transit operators and transit professionals such as transit planners. However, the organization still met its objectives for the year despite these labour challenges and an internal review outcome of a 9 per cent reduction in BC Transit's exempt staff. The partnerships and shared service model that are at BC Transit's core were key assets that helped the organization to meet its objectives amidst staffing challenges.

Outlook

BC Transit's 2012/13 – 2014/15 Service Plan describes the transit program to be undertaken in the next three years in response to Government's direction. The plan can be found on BC Transit's website at: http://bctransit.com/corporate/general_info/annual_reports.cfm and an exerpt is included on the following page.

The coming years are expected to include several challenges for BC Transit and its service partners. The slow economic recovery has placed a significant amount of stress on funding partners and cost volatility, primarily relating to fuel and fleet related expenditures which could create cost and funding pressures. A significant amount of capital investment required to maintain and expand fleet and facilities will create further cost and funding pressures. Management is implementing plans to help mitigate these risks to the extent possible. The future will challenge BC Transit but will also provide significant opportunities.

2012/13 – 14/15 Service Plan

(figures in 000's)

Income Statement	2012/13 Plan	2013/14 Plan	2014/15 Plan
Revenue:			
Operating Contributions from the Province	96,639	103,475	111,497
Amortization of Deferred Capital Contribution (DCC)*	64,460	70,903	75,791
Amortization of Contributed Surplus and Other Capital Grants**	3,956	4,197	1,303
Local taxation	88,999	97,936	116,196
Passenger & advertising revenue	68,091	70,005	71,817
Investment & other earnings	3,093	4,469	5,032
Total Revenues	**325,238**	**350,985**	**381,636**
Expenditures:			
Salaries and benefits	65,591	69,766	75,090
Operating costs	158,380	168,464	181,319
Capital asset amortization expense**	92,854	103,715	115,040
Debt service costs	8,413	9,040	10,187
Total Expenditures	**325,238**	**350,985**	**381,636**
Net Income	–	–	–

**BC Transit receives capital funding for the construction or acquisition of assets and their use in program/service delivery. Capital contributions are deferred and recognized in revenue over the useful life of the asset, as program/services are delivered, as directed by the Province.*

***For purposes of this Service Plan, amortization of Contributed Surplus is disclosed as Revenue. Accepted financial statement disclosure records amortization of Contributed Surplus as a recovery from Accumulated Surplus. Retrospective amortization on the change in accounting policy is not included for Service Plan purposes.*

MANAGEMENT REPORT

Year ended March 31, 2012

The consolidated financial statements of British Columbia Transit ("BC Transit") are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia.

These consolidated financial statements include some amounts based on management's best estimates and careful judgment. A precise determination of many assets and liabilities is dependent upon future events and, consequently, the preparation of periodic consolidated financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at May 24, 2012.

BC Transit's system of internal controls is designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, financial information is reliable and ethics codes are observed. Inherent to the concept of reasonable assurance is the recognition that there are limits in all internal control systems and that system costs should not exceed the expected benefits. The system includes the selection, training and development of qualified personnel, organizational division of responsibilities, appropriate delegation of authority and formal written company policies and procedures including the conflict of interest policy of all BC Transit officers and employees.

The consolidated financial statements have been examined by the Auditor General of British Columbia, BC Transit's independent external auditors. Their responsibility is to express their opinion whether the consolidated financial statements in all material respects, present fairly the consolidated financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 and the consolidated statements of operations, statements of change in net debt, statement of remeasurement gains and losses, and the statements of cash flows for the years then ended in accordance with Canadian public sector accounting standards. Their report follows. The Board of Directors meets regularly with management and the external auditors to satisfy itself that the company's system of internal control is adequate, to ensure that responsibilities for financial reporting are being met, and to provide an opportunity for full and open access to the Board of Directors in respect to financial reporting matters.

Management is responsible for all of the information in this Annual Report. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Manuel Achadinha
President and Chief Executive Officer
May 24, 2012

Michael Kohl, CA
Vice President, Finance and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of British Columbia Transit, and
To the Minister of Transportation and Infrastructure, Province of British Columbia

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of British Columbia Transit, which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, and the consolidated statements of operations, statements of change in net debt, statement of remeasurement gains and losses and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting requirements of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

In my view, the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

BC TRANSIT

Independent Auditor's Report

Opinion

In my opinion, the consolidated financial statements of British Columbia Transit for the years ended March 31, 2012, and March 31, 2011, and the consolidated statement of financial position as at April 1, 2010, are prepared, in all material respects, in accordance with the accounting requirements of Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia.

Emphasis of Matter

Without modifying my opinion, I draw attention to Note 2(a) to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards. Note 19 to the consolidated financial statements discloses the impact of these differences.

Victoria, British Columbia
May 24, 2012

John Doyle, MAcc, CA
Auditor General

Office of the Auditor General of British Columbia

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Financial Position
(Expressed in thousands of dollars)
March 31, 2012, March 31, 2011 and April 1, 2010

	March 31, 2012	March 31, 2011	April 1, 2010
		(Restated – note 3)	(Restated – note 3)
Financial assets:			
Cash and cash equivalents (note 4)	$ 87,898	$ 54,034	$ 36,344
Accounts receivable:			
Provincial and federal capital grants	3,000	-	1,078
Municipalities	13,317	9,654	10,671
Trade and other	6,124	10,569	11,038
Debt sinking funds (note 7)	64,199	51,531	42,069
	174,538	125,788	101,200
Liabilities:			
Accounts payable and accrued liabilities	28,370	31,372	35,811
Provincial funding payable	10,331	526	-
Deferred contributions (note 5)	7,347	7,168	8,300
Deferred capital contributions (note 6)	821,561	860,046	900,095
Debt (note 7)	240,665	206,403	179,145
Obligations under capital lease	-	-	137
Employee future benefits (note 8)	13,448	12,245	11,062
	1,121,722	1,117,760	1,134,550
Net debt:	(947,184)	(991,972)	(1,033,350)
Non-financial assets:			
Tangible capital assets (note 9)	313,304	323,999	336,183
Tangible capital assets under lease (note 10)	680,737	713,391	746,045
Inventories	8,166	8,286	8,796
Prepaid expenses	2,052	1,072	1,331
Prepaid lease payments	1,996	2,102	919
	1,006,255	1,048,850	1,093,274
Accumulated surplus:	$ 59,071	$ 56,878	$ 59,924
Accumulated surplus is comprised of:			
Accumulated operating surplus	$ 52,565	$ 53,977	$ 59,924
Accumulated remeasurement gains	6,506	2,901	-
	$ 59,071	$ 56,878	$ 59,924

Commitments and contingencies (notes 12 and 13)

The accompanying notes are an integral part of these consolidated financial statements

Director

Director

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Operations
(Expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

	Budget (note 16)	2012	2011 (Restated – note 3)
Revenue:			
Operations	$ 66,766	$ 67,847	$ 65,127
Government transfers:			
Provincial (note 14)	90,875	88,065	83,971
Municipal (note 14)	86,898	75,483	66,793
Amortization of deferred capital contributions	30,929	27,183	30,151
Investment and other income	2,188	2,947	3,390
	277,656	261,525	249,432
Expenses: (note 15)			
Operations	206,570	198,936	191,046
Maintenance	46,588	40,652	39,382
Administration	24,498	22,568	22,053
	277,656	262,156	252,481
Net loss from operations	-	(631)	(3,049)
Other:			
Vancouver assets - amortization of deferred capital contributions (note 6)	31,242	31,242	31,242
Vancouver assets - amortization expense (note 10)	(32,654)	(32,654)	(32,654)
Amortization of contributed surplus	1,412	-	-
Gain on disposal of capital assets	-	11	242
Gain on foreign exchange and investments	-	620	375
	-	(781)	(795)
Annual deficit	-	(1,412)	(3,844)
Accumulated operating surplus, beginning of year	53,977	53,977	57,821
Accumulated operating surplus, end of year	$ 53,977	$ 52,565	$ 53,977

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Change in Net Debt
(Expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

	Budget (note 16)	2012	2011
Annual deficit	$ -	$ (1,412)	$ (3,844)
Acquisition of tangible capital assets	(162,350)	(36,436)	(36,459)
Amortization of tangible capital assets	80,701	79,766	79,192
Amortization of prepaid lease	-	106	106
Gain on sale of tangible capital assets	-	(11)	(242)
Proceeds on sale of tangible capital assets	-	30	865
Feasibility project expenses	-	-	1,482
	(81,649)	42,043	41,100
Acquisition of inventories of parts	-	(27,156)	(26,696)
Acquisition of prepaid expenses	-	(2,052)	(1,072)
Consumption of inventories of parts	-	27,276	27,206
Use of prepaid expenses	-	1,072	1,331
Prepaid lease payment	-	-	(1,289)
	-	(860)	(520)
Realized (gain) loss reclassified to operations	-	(620)	(375)
Unrealized gain (loss) on portfolio investment	-	4,225	1,173
	-	3,605	798
Change in net debt	(81,649)	44,788	41,378
Net debt, beginning of year	(991,972)	(991,972)	(1,033,350)
Net debt, end of year	$ (1,073,621)	$ (947,184)	$ (991,972)

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statement of Remeasurement Gains and Losses
(Expressed in thousands of dollars)

Year ended March 31, 2012

		2012
Accumulated remeasurement gains and losses, beginning of year	$	2,901
Unrealized gain on investments		4,225
Realized gain on investments, reclassified to operations		(620)
Accumulated remeasurement gains and losses, end of year	$	6,506

The accompanying notes are an integral part of these consolidated financial statements

BRITISH COLUMBIA TRANSIT

Consolidated Statements of Cash Flows
(Expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

	2012	2011 (Restated note 3)
Cash provided by (used in):		
Operating activities:		
Annual deficit	$ (1,412)	$ (3,844)
Items not involving cash:		
Amortization of tangible capital assets	79,766	79,192
Amortization of prepaid lease	106	106
Gain on sale of tangible capital assets	(11)	(242)
Amortization of deferred capital contributions	(58,425)	(61,393)
Feasibility project expenses	-	1,482
Changes in non-cash assets and liabilities:		
Accounts receivable	(2,218)	2,564
Accounts payable and accrued liabilities	6,803	(3,913)
Deferred contributions	179	(1,132)
Employee future benefits	1,203	1,183
Inventories of parts	120	510
Prepaid expenses	(980)	259
Net change in cash from operating activities	25,131	14,772
Capital activities:		
Proceeds from disposal of TPCC	-	20
Proceeds on sale of tangible capital assets	30	865
Cash used to acquire tangible capital assets	(36,436)	(36,459)
Net change in cash from capital activities	(36,406)	(35,574)
Investing activities:		
Increase in debt sinking funds net of unrealized gain	(9,063)	(8,684)
Net change in cash from investing activities	(9,063)	(8,684)
Financing activities:		
Capital lease payments	-	(137)
Prepaid lease payments	-	(1,289)
Debt issued	44,151	35,596
Debt repaid	(9,889)	(8,338)
Deferred capital contributions received	19,940	21,344
Net change in cash from financing activities	54,202	47,176
Net change in cash and cash equivalents	33,864	17,690
Cash and cash equivalents, beginning of year	54,034	36,344
Cash and cash equivalents, end of year	$ 87,898	$ 54,034
Supplemental cash flow information:		
Cash paid for interest	$ 10,684	$ 9,372
Cash received from interest	2,283	1,871

The accompanying notes are an integral part of these consolidated financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

1. Nature of Operations:

British Columbia Transit ("BC Transit") was established under the *British Columbia Transit Act*, as amended in 1998, to operate the urban transit systems in the Province of British Columbia (the "Province") outside of the Metro Vancouver Regional service area. BC Transit is exempt from income taxes under the *Income Tax Act*.

BC Transit, on behalf of the Victoria Regional Transit Commission, is responsible for the administration of all funds raised by certain tax levies. These funds held in trust are excluded from the consolidated financial statements.

The financial position and changes in the funds during the year are set out in note 11.

2. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements are prepared by management in accordance with Canadian public sector accounting standards (PSAS) as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011 and as advised by the Office of the Comptroller General of British Columbia.

These are BC Transit's first consolidated financial statements prepared in accordance with Public Sector Accounting Standards and PS 2125, *First-time Adoption by Government Organizations*, has been applied. BC Transit has elected to early adopt Section PS 1201 *Financial Statement Presentation*, PS 2601 *Foreign Currency Translation*, and PS 3450 *Financial Instruments* in the preparation of these consolidated financial statements.

These accounting changes have been applied retroactively with restatement of prior periods except for the accounting standards contained in PS 2601 *Foreign Currency Translation* and PSAS 3410.100 *Financial Instruments* as these standards specifically prohibit retroactive application. The transition date is April 1, 2010 and all comparative information provided has been presented by applying PSAS.

In accordance with the transitional provisions in PSAS, BC Transit has adopted the changes, subject to certain exemptions allowed under these standards. BC Transit has elected to use the following exemptions:

Tangible capital asset impairment – BC Transit has elected to assess conditions for a write-down of a tangible capital asset as noted in PS 3150, *Tangible Capital Assets*, on a prospective basis from the date of transition to Public Sector Accounting Standards.

Retirement and post employment-benefits – BC Transit has elected to recognize all cumulative actuarial gains and losses directly into accumulated surplus, as noted in PS 3250, *Retirement Benefits* and PS 3255, *Post-Employment Benefits, Compensated Absences and Termination Benefits*, as at the date of transition to Public Sector Accounting Standards.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

In November 2011, Treasury Board provided a directive through Restricted Contributions Regulation 198/2011 providing direction for the reporting of government transfers whether they are received or receivable by BC Transit before or after this regulation was in effect. The Treasury Board direction on the accounting treatment of government transfers is as described in Note 2(e)(i) and 2(e)(ii).

These consolidated financial statements have been prepared in accordance with the financial reporting framework described above.

(b) Basis of accounting:

BC Transit follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(c) Future accounting policy changes:

(i) Liability for contaminated sites:

In June 2010, the Public Sector Accounting Board (PSAB) issued PS 3260 *Liability for Contaminated Sites*. PS 3260 establishes recognition, measurement and disclosure standards for liabilities relating to contaminated sites of governments. The main features of the section are as follows:

- A liability should be recognized when contamination exceeds an accepted environmental standard and the entity is directly responsible, or accepts responsibility for the damage.
- A liability should be measured at the entity's best estimate of the costs directly attributable to remediation of the contamination; and
- Outstanding site assessments do not negate the requirement to assess whether a liability exists.

Management is evaluating the impact of PS 3260, which will be adopted for fiscal 2015.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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2. Significant accounting policies (continued):

(d) Basis of consolidation:

(i) Consolidated entities

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of organizations which are controlled by BC Transit. Controlled organizations are consolidated with inter-organizational transactions, balances, and activities eliminated on consolidation.

The following organizations are controlled by BC Transit and fully consolidated in these financial statements:

TBC Vehicle Management Inc.

TBC Operations Inc.

TBC Properties Inc.

0915866 B.C. Ltd.

0922667 B.C. Ltd.

0925406 B.C. Ltd.

0928624 B.C. Ltd.

(e) Deferred contributions and revenue recognition

Government transfers received relate to contributions from federal, provincial and municipal governments to fund capital projects, operating costs, sinking fund and interest payments.

Under Restricted Contributions Regulation 198/2011, government transfers are reported as revenue depending on the nature of the restrictions on the use of the funds by the contributors as follows:

(i) Contributions for the purpose of acquiring or developing a depreciable tangible capital asset or in the form of a depreciable tangible capital asset, in each case for use in providing services are recorded and referred to as deferred capital contributions and recognized in revenue at the same rate that amortization of the tangible capital asset is recorded. The reduction of the deferred capital contributions and the recognition of the revenue are accounted for in the fiscal period during which the tangible capital asset is used to provide services.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(e) Deferred contributions and revenue recognition (continued)

(ii) Contributions restricted for specific purposes other than for those to be held in perpetuity or the acquisition or development of a depreciable tangible capital asset are recorded as deferred contributions and recognized in revenue in the year in which the stipulation or restriction on the contribution has been met.

See note 19 for the impact of this regulation on these consolidated financial statements.

Transit user charges are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated, collection is reasonably assured and when services have been provided to the users.

(f) Investment income:

Investment income is reported as revenue in the period earned. When required by the funding party or related Act, investment income earned on deferred contributions is added to the investment and forms part of the deferred contributions balance.

(g) Financial instruments:

BC Transit has elected to measure specific financial instruments at fair value, to correspond with how they are evaluated and managed. These financial instruments are identified in this note by financial asset and financial liability classification and are not reclassified for the duration of the period they are held. All other financial assets and financial liabilities are measured at cost or amortized cost. The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations. Interest and dividends attributable to financial instruments are reported in the statement of operations.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(g) Financial instruments (continued)

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations. A write down of a portfolio investment to reflect a loss in value is not reversed for a subsequent increase in value.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, certificates of deposit and short-term investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. These short-term investments generally have a term to maturity of 90 days or less at acquisition, are held for the purpose of meeting short term cash commitments rather than for investing, are reported at fair value and measured using a Level 1 valuation.

(ii) Accounts receivable

Accounts receivable are recorded at cost less any amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowance are recognized in the statement of operations.

(iii) Debt sinking funds

Investments in sinking fund balances consist of pooled investment portfolios and Canadian, Provincial government and Crown Corporation bonds managed by the British Columbia Investments Management Corporation ("bcIMC"), a corporation established under the *Public Sector Pension Plans Act*. Sinking fund investments are recorded at fair value and measured using a Level 1 valuation. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

(iv) Debt and other financial liabilities

All debt and other financial liabilities are recorded using cost or amortized cost.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(h) Employee future benefits

BC Transit and its employees contribute to the Public Service Pension Plan (the "Plan"), a jointly trusteed pension plan. The Board of Trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of the benefits. The pension plan is a multi-employer contributory pension plan. Basic pension benefits provided are defined. The Plan has about 54,000 active plan members and approximately 38,000 retired plan members. Required contributions to the Plan are expensed as incurred. The maximum contribution rate for eligible employees was 9.28% (2011 – 9.28%). BC Transit's maximum contribution rate was 10.28% (2011 – 10.28%).

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent valuation as at March 31, 2011, indicated a deficit of $275,401 for basic pension benefits. The actuary does not attribute portions of the deficit to individual employers. The next required valuation is March 31, 2014.

Outside of the Public Service Pension Plan, BC Transit maintains various benefit arrangements available to retired employees including non-pension post retirement benefits, post employment benefits and continuation of long term disability benefits. The future obligation under these benefit plans are accrued as the employees render the services necessary to earn the benefit. Management, using an estimate of salary escalation and expected retirement ages, calculates the cost of the defined retirement benefit. The recorded liability represents these estimated future costs discounted to a present value using market interest rates applicable to BC Transit. The accrued employee benefit obligations and the net periodic benefit cost were estimated by an actuarial valuation completed effective for March 31, 2012.

(i) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

(i) Tangible capital assets:

Tangible capital assets are recorded at cost which includes amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets are amortized on a straight line basis over their estimated useful lives as follows:

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(i) Non-financial assets (continued):

Asset	Useful Life - Years
Land	Indefinite – not amortized
Leasehold improvements	term of lease
Buildings	5 – 30
Revenue vehicles:	
Main asset	2 – 20
Major components	2 – 11
Hydrogen fuel cell fleet	5 – 10
Non-revenue vehicles	10
Hydrogen fuelling station	5
Equipment and other capital assets	4 – 20

(ii) Contributions of tangible capital assets:

Tangible capital assets received as contributions are recorded at their fair value at the date of receipt and also are recorded as deferred capital contributions. Tangible capital assets are amortized over their estimated useful lives.

(iii) Interest capitalization:

Interest is capitalized whenever external debt is issued to finance the construction of tangible capital assets. Interest is capitalized from the date of advance of funds until the assets are available for service.

(iv) Leased tangible capital assets:

Leases which transfer substantially all of the benefits and risks incidental to ownership of property are accounted for as leased tangible capital assets. All other leases are accounted for as operating leases and the related payments are charged to expenses as incurred.

(v) Inventories:

Inventories held for consumption are recorded at the lower of cost and replacement cost.

(vi) Impairment of tangible capital assets:

BC Transit monitors the recoverability of tangible capital assets. Whenever events or changes in circumstances indicate that the tangible capital asset no longer contributes to the ability to provide transit services or that the value of the future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset is written down to residual value.

(vii) Intangibles:

Intangible assets are not recognized in government financial statements.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Significant estimates include assumptions used in the determination of amortization periods and estimating provisions for certain accrued liabilities. Actual results could differ from these estimates.

3. Conversion to Public Sector Accounting Standards and adoption of Restricted Contributions Regulation 198/2011:

As outlined in note 2 (a), on April 1, 2011, BC Transit adopted Canadian public sector accounting standards as required by Section 23.1 of the *Budget Transparency and Accountability Act* of the Province of British Columbia except in regard to the accounting for government transfers which is based on the Restricted Contributions Regulation 198/2011.

The impact of the conversion to Canadian public sector accounting standards and the adoption of the Restricted Contributions Regulation 198/2011 at the date on transition is presented below.

(a) PSAS transitional adjustments:

(i) Tangible capital assets
Under BC Transit's previous reporting framework, intangible assets were recognized as assets on the consolidated balance sheet. Upon conversion to PSAS, these assets had to be written off as intangible assets are not recognized as assets under the new reporting framework. Accordingly, $1,497 was expensed on April 1, 2010 and $1,855 was expensed at March 31, 2011.

(ii) Employee future benefits
Upon conversion to PSAS, BC Transit has recalculated all employee benefit provisions in accordance with PS 3250, *Retirement benefits*, and PS 3255, *Post-employment benefits, compensated absences and termination benefits*. Accordingly, a liability of $11,062 was recognized at April 1, 2010 and an unrealized employee future benefit expense of $1,183 was recorded at March 31, 2011.

(b) Restricted contributions transitional adjustments:
Upon adoption of the regulation, BC Transit has recognized $179 of revenue deferred under its previous reporting framework on April 1, 2010 and derecognized $14 of related revenue previously recognized on March 31, 2011.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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3. Conversion to Public Sector Accounting Standards (continued):

(c) Summary of adjustments:

	April 1, 2010 As previously reported	Effect of PSAS Adoption: Tangible Capital Assets	Effect of PSAS Adoption: Employee Future Benefits	Effect of PSAS Adoption: Government Transfers	Presentation Changes	Total Opening Adjustments	April 1, 2010 restated
Cash and cash equivalents	$ 36,344						36,344
Accounts receivable - Federal	1,078						1,078
Accounts receivable - Municipalities	10,671						10,671
Accounts receivable - Trade and other	11,038						11,038
Debt Sinking funds	42,069						42,069
Accounts payable and accrued liabilities	(35,297)		(514)			(514)	(35,811)
Provincial funding payable	-						-
Deferred contributions	(4,733)				$ (3,567)	$ (3,567)	(8,300)
Deferred revenue	(3,746)			$ 179	3,567	3,746	-
Deferred capital contributions	(600,096)						(600,096)
Debt	(179,145)						(179,145)
Obligations under capital lease	(137)						(137)
Employee future benefits	-		$ (11,062)			(11,062)	(11,062)
Tangible capital assets	348,209	$ (1,497)			(8,529)	(10,026)	338,183
Tangible capital assets under lease	746,045						746,045
Inventories	267				8,529	8,529	8,796
Prepaid expenses	1,331						1,331
Prepaid lease payments	919						919
Accumulated operating surplus	(72,819)	1,497	11,578	(179)		12,894	(59,924)
Accumulated remeasurement gains	-					-	-

	March 31, 2011 As previously reported	Prior year adjustments	Effect of PSAS Adoption: Tangible Capital Assets	Effect of PSAS Adoption: Employee Future Benefits	Effect of PSAS Adoption: Government Transfers	Presentation Changes	March 31, 2011 restated
Cash and cash equivalents	$ 54,034						$ 54,034
Accounts receivable - Federal	-						-
Accounts receivable - Municipalities	9,654						9,654
Accounts receivable - Trade and other	10,569						10,569
Debt Sinking funds	51,531						51,531
Accounts payable and accrued liabilities	(31,384)	(514)				938	(31,372)
Provincial funding payable	-					(526)	(526)
Deferred contributions	(5,298)				$	(1,870)	(7,168)
Deferred revenue	(2,035)	$ 179			$ (14)	1,870	-
Deferred capital contributions	(860,046)						(860,046)
Debt	(206,403)						(206,403)
Employee future benefits	-	(11,062)		$ (1,183)			(12,245)
Tangible capital assets	336,742	(1,497)	$ (3,080)			(8,166)	323,999
Tangible capital assets under lease	713,391						713,391
Inventories	120					8,166	8,286
Prepaid expenses	1,072						1,072
Prepaid lease payments	877		1,225				2,102
Accumulated operating surplus	(72,824)	12,894	1,855	1,183	14	-	(56,878)
Accumulated remeasurement gains	-					(2,901)	(2,901)
Annual deficit (surplus) for the year	$ (792)	$ -	$ (1,855)	$ (1,183)	$ (14)	$ -	$ (3,844)

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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4. Cash and cash equivalents:

Major components of cash and cash equivalents are as follows:

	2012	2011	2010
Cash	$ 9,916	$ 15,616	$ 4,003
Cash equivalents	77,982	38,418	32,341
	$ 87,898	$ 54,034	$ 36,344

5. Deferred contributions:

BC Transit owns certain West Coast Express and SkyTrain infrastructure in Vancouver. The SkyTrain infrastructure included lands surplus to the operation of the Expo Line. In prior years BC Transit has disposed of certain surplus lands. The Ministry of Transportation and Infrastructure granted these and other accumulated funds to BC Transit to use for operating and capital expenditures. No amounts (2011 - $0) were used to purchase capital assets in the year. The remaining unexpended amounts represent funds designated for capital and special projects.

Deferred contributions also includes $71 (2011 - $66) received from the Ministry of Environment and held for retro-fitting diesel motors.

BC Transit earned no interest (2011 - $3) on deferred capital grants from the Public Transit Agreement as all amounts were spent in the prior year. As required under the related contribution agreements, this interest was deferred.

Debt service contributions to fund sinking fund and interest payments are recovered from local municipal partners over the estimated service life of the related assets. These contributions may differ from the annual amortization of the related assets. Such differences are deferred to be recognized as a recovery in future periods.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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5. Deferred contributions (continued):

The deferred contributions, reported on the consolidated statement of financial position, are made up of the following:

	2012	2011	2010
Provincial funding	$ 1,876	$ 1,870	$ 2,171
Public Transit Agreement	-	-	1,396
Deferred local contributions	5,471	5,298	4,733
Total deferred contributions	$ 7,347	$ 7,168	$ 8,300

Continuity of deferred contributions is as follows:

	2012	2011
Balance, beginning of year	$ 7,168	$ 8,300
Provincial funding	6	367
Public Transit Agreement	-	966
Contributions from municipalities – Victoria	33,421	29,881
Contributions from other municipalities	42,229	37,477
	82,824	76,911
Interest earned	-	1
Contributions used	-	(3,031)
Deferred local contributions used	(75,477)	(66,793)
Balance, end of year	$ 7,347	$ 7,168

6. Deferred capital contributions:

The deferred capital contributions, reported on the consolidated statement of financial position, are made up of the following:

	2012	2011	2010
Deferred capital contributions	$ 193,366	$ 200,609	$ 209,416
Vancouver assets - deferred capital contributions	628,195	659,437	690,679
Total deferred capital contributions	$ 821,561	$ 860,046	$ 900,095

BRITISH COLUMBIA TRANSIT

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6. Deferred capital contributions (continued):

Deferred capital contributions include Federal and Provincial grants subject to amortization on the same basis as the related asset.

	2012	2011
Balance, beginning of year	$ 200,609	$ 209,416
Contributions and other additions	19,940	21,344
Amortization	(27,183)	(30,151)
Balance, end of year	193,366	200,609
Capital assets under lease:		
Balance, beginning of year	659,437	690,679
Amortization	(31,242)	(31,242)
Balance, end of year	628,195	659,437
Total deferred capital contributions	$ 821,561	$ 860,046

7. Debt:

BC Transit's debt, including principal and interest, is either held or guaranteed by the Province. BC Transit has not experienced any losses to date under this indemnity. Under the *British Columbia Transit Act*, BC Transit is subject to a borrowing limit of $500 million in total. The Minister of Finance, as BC Transit's fiscal agent, arranges financing at BC Transit's request.

The gross amount of debt and the amount of sinking fund assets available to retire the debt are as follows:

	2012	2011	2010
Sinking fund bonds, weighted average interest rate of 4.60%, maturing at various dates to 2040, amortized from 5 to 30 years	$240,665	$206,403	$179,145

Investments held in sinking funds, including interest earned, are to be used to repay the related debt at maturity. Investment income includes $623 (2011 - $350) of realized gains on disposition of investments in sinking funds.

BRITISH COLUMBIA TRANSIT

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7. Debt (continued):

Sinking fund investments are managed by the British Columbia Investment Management Corporation and have cost and market values as follows:

	2012		2011		2010	
	Cost	Market value	Cost	Market value	Cost	Market value
Money market funds	$ 287	$ 287	$ 2,331	$ 2,331	$ 335	$ 329
Provincial bonds	57,505	63,912	46,301	49,200	39,389	41,496
Municipal bonds	-	-	-	-	222	244
Total	$ 57,792	$ 64,199	$ 48,632	$ 51,531	$ 39,966	$ 42,069

The total debt maturities for the next five years are as follows:

2013	$ -
2014	9,604
2015	19,275
2016	25,595
2017	6,378
Thereafter	180,079

Debt sinking fund installments in each of the next five years are as follows:

2013	$ 17,224
2014	16,857
2015	15,284
2016	12,638
2017	8,005
Thereafter	50,728

BRITISH COLUMBIA TRANSIT

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8. Employee future benefits:

Information about BC Transit's benefit plans is as follows:

	2012	2011	2010
Non-pension post retirement benefits	$ 12,822	$ 10,852	$ 10,050
Post employment benefits	445	469	502
Continuation of long term disability benefits	1,122	905	510
Total liability for benefits	$ 14,389	$ 12,226	$ 11,062

The employee future benefits liability reported on the statement of financial position is as follows:

	2012	2011
Accrued benefit obligation:		
Balance, beginning of year	$ 12,245	$ 11,062
Current benefit cost and event-driven expense	1,095	1,226
Interest	535	489
Actuarial gain (loss)	(2)	-
Benefits paid	(425)	(532)
Balance, end of year	13,448	12,245
Unamortized actuarial loss (gain)	941	(19)
Liability for benefits	$ 14,389	$ 12,226

Included in expenses is $2 (2011 - nil) for amortization of the actuarial loss.

The unamortized actuarial loss on future payments is amortized over the expected period of the liability which is 10 years for post employment benefits and 11 years for post retirement benefits.

The significant actuarial assumptions adopted in measuring BC Transit's accrued benefit obligations are as follows:

	2012	2011
Discount rate	3.5% - 4.1%	3.9% - 4.5%
Expected future inflationary increases	2.6% - 5.2%	2.6% - 5.2%
Weighted average health care trend - end of year	7.24% in 2012 grading to 4.5% in and after 2029	7.42% in 2011 grading to 4.5% in and after 2029
Dental and MSP trend – end of year	4.5%	4.5%

BRITISH COLUMBIA TRANSIT

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9. Tangible capital assets:

Cost	Balance, March 31, 2011	Additions	Disposals	Balance, March 31, 2012
Land	$ 2,608	$ -	$ -	$ 2,608
Leasehold improvements	10,391	5,821	-	16,212
Buildings	37,361	7,029	-	44,390
Vehicles	356,212	12,987	1,713	367,486
Hydrogen vehicles	52,648	-	-	52,648
Hydrogen fuel station	9,810	-	-	9,810
Other equipment	25,447	8,825	-	34,272
Capital projects in progress	33,787	36,439	34,663	35,563
Total	$ 528,264	$ 71,101	$ 36,376	$ 562,989

Accumulated amortization	Balance, March 31, 2011	Disposals	Amortization expense	Balance, March 31, 2012
Leasehold improvements	$ 2,652	$ -	$ 660	$ 3,312
Buildings	16,409	-	1,318	17,727
Vehicles	153,975	1,692	30,923	183,206
Hydrogen vehicles	10,923	-	10,086	21,009
Hydrogen fuel station	2,446	-	1,962	4,408
Other equipment	17,860	-	2,163	20,023
Capital projects in progress	-	-	-	-
Total	$ 204,265	$ 1,692	$ 47,112	$ 249,685

Net book value	March 31, 2011	March 31, 2012
Land	$ 2,608	$ 2,608
Leasehold improvements	7,739	12,900
Buildings	20,952	26,663
Vehicles	202,237	184,280
Hydrogen vehicles	41,725	31,639
Hydrogen fuel station	7,364	5,402
Other equipment	7,587	14,249
Capital projects in progress	33,787	35,563
Total	$ 323,999	$ 313,304

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
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9. Tangible capital assets (continued):

Cost	Balance, April 1, 2010	Additions	Disposals	Balance, March 31, 2011
Land	$ 2,608	$ -	$ -	$ 2,608
Leasehold improvements	10,103	288	-	10,391
Buildings	36,707	654	-	37,361
Vehicles	355,763	14,138	13,689	356,212
Hydrogen vehicles	51,624	1,024	-	52,648
Hydrogen fuel station	10,807	-	997	9,810
Other equipment	23,030	2,417	-	25,447
Capital projects in progress	16,589	36,012	18,814	33,787
Total	$ 507,231	$ 54,533	$ 33,500	$ 528,264

Accumulated amortization	Balance, April 1, 2010	Disposals	Amortization expense	Balance, March 31, 2011
Leasehold improvements	$ 2,087	$ -	$ 565	$ 2,652
Buildings	14,942	-	1,467	16,409
Vehicles	137,726	13,141	29,390	153,975
Hydrogen vehicles	1,237	-	9,686	10,923
Hydrogen fuel station	180	180	2,446	2,446
Other equipment	14,876	-	2,984	17,860
Capital projects in progress	-	-	-	-
Total	$ 171,048	$ 13,321	$ 46,538	$ 204,265

Net book value	April 1, 2010	March 31, 2011
Land	$ 2,608	$ 2,608
Leasehold improvements	8,016	7,739
Buildings	21,765	20,952
Vehicles	218,037	202,237
Hydrogen vehicles	50,387	41,725
Hydrogen fuel station	10,627	7,364
Other equipment	8,154	7,587
Capital projects in progress	16,589	33,787
Total	$ 336,183	$ 323,999

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

9. Tangible capital assets (continued):

Assets under construction having a value of $35,563 (2011 - $33,787; 2010 - $16,589) have not been amortized. Amortization of these assets will commence when the asset is available for service.

During the year, $43 (2011 - $623; 2010 - $148) of equipment was recognized as a write-down when equipment was removed from service.

Interest capitalized for capital projects in 2012 was $998 (2011 - $482; 2010 - $1,903).

10. Tangible capital assets under lease:

Capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to the South Coast British Columbia Transportation Authority ("SCBCTA") for their use pursuant to an Order in Council and operating lease and represent one of the Province's contributions toward public transportation in the Metro Vancouver service area.

The operating lease arrangements with SCBCTA are for one dollar per year under an initial 15-year term to 2014, with additional five-year renewal periods upon the agreement of BC Transit and the SCBCTA.

Cost	Balance, March 31, 2011	Additions	Disposals	Balance, March 31, 2012
SkyTrain	$ 1,204,098	$ -	$ -	$ 1,204,098
West Coast Express	128,848	-	-	128,848
Total	$ 1,332,946	$ -	$ -	$ 1,332,946

Accumulated amortization	Balance, March 31, 2011	Disposals	Amortization expense	Balance, March 31, 2012
SkyTrain	$ 553,348	$ -	$ 28,360	$ 581,708
West Coast Express	66,207	-	4,294	70,501
Total	$ 619,555	$ -	$ 32,654	$ 652,209

Net book value	March 31, 2011	March 31, 2012
SkyTrain	$ 650,750	$ 622,390
West Coast Express	62,641	58,347
Total	$ 713,391	$ 680,737

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

10. Tangible capital assets under lease (continued):

Cost	Balance, April 1, 2010	Additions	Disposals	Balance, March 31, 2011
SkyTrain	$ 1,204,098	$ -	$ -	$ 1,204,098
West Coast Express	128,848	-	-	128,848
Total	$ 1,332,946	$ -	$ -	$ 1,332,946

Accumulated amortization	Balance, April 1, 2010	Disposals	Amortization expense	Balance, March 31, 2011
SkyTrain	$ 524,988	$ -	$ 28,360	$ 553,348
West Coast Express	61,913	-	4,294	66,207
Total	$ 586,901	$ -	$ 32,654	$ 619,555

Net book value	April 1, 2010	March 31, 2011
SkyTrain	$ 679,110	$ 650,750
West Coast Express	66,935	62,641
Total	$ 746,045	$ 713,391

11. Victoria Regional Transit Commission:

BC Transit holds funds in trust on behalf of the Victoria Regional Transit Commission. These funds are not included in the consolidated statement of financial position. The accumulated surplus and transactions during the year are as follows:

	2012	2011
Accumulated surplus, beginning of year	$ 2,386	$ 1,664
Revenue:		
Fuel tax	11,853	11,423
Property tax	24,668	19,180
Interest earned	126	41
Government transfers	(34,272)	(29,922)
Accumulated surplus, end of year	$ 4,761	$ 2,386

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

12. Commitments:

BC Transit has outstanding commitments as summarized below:

	2013	2014	2015	2016	2017
Operating leases	$ 1,070	$ 1,070	$ 1,028	$ 1,030	$ 815
Facilities	8,739	1,206	-	-	-
Vehicle purchases	10,479	-	-	-	-
Hydrogen fuel commitments	1,595	1,595	-	-	-
Fixed price fuel commitments	8,925	-	-	-	-
	$ 30,808	$ 3,871	$ 1,028	$ 1,030	$ 815

13. Contingent liabilities:

The nature of BC Transit's activities is such that there is usually litigation pending or in process at any time. With respect to unsettled claims at March 31, 2012 management has determined that BC Transit has valid defenses and appropriate insurance coverage in place. In the event any claims are successful, management believes that such claims are not expected to have a material effect on the financial position of BC Transit.

14. Government transfers:

BC Transit recognizes the transfer of funding as revenues in the period that the events giving rise to the transfer occurred. The transfers reported on the statement of operations are:

	2012	2011
Revenue:		
Provincial grants:		
Operating	$ 88,071	$ 83,633
Supplementary operating	(6)	338
	88,065	83,971
Capital	15,552	18,254
	103,617	102,225
Federal grants:		
Capital	4,494	840
Municipal grants:		
Transfers under cost share agreements	75,483	66,793
Capital	-	2,250
	79,977	69,043
Total revenues	$ 183,594	$ 172,108

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

15. Classification of expense by object:

	2012	2011
Contracted salaries, wages and benefits	68,393	66,398
Salaries, wages and benefits	63,560	60,766
Amortization of capital assets	47,112	46,538
Fuel	29,960	25,287
Fleet Maintenance	20,814	18,921
Interest	10,902	8,850
Insurance	3,902	3,919
Leases and taxes	3,461	3,382
Major projects and initiatives	2,641	6,934
Municipal expenses	1,929	1,884
Marketing and communications	1,914	1,754
Taxi programs	1,848	1,807
Facility maintenance	1,450	1,364
Information systems	1,662	1,773
Corporate expenses	1,163	1,220
Professional fees	725	951
Travel and meetings	720	733
Total operating expenses	$ 262,156	$ 252,481

16. Budget data:

The budget data presented in these consolidated financial statements is based upon the 2012 operating and capital budgets in the approved BC Transit 2011/12 – 2013/14 Service Plan. The table below reconciles the approved budget to the budget figures reported in these consolidated financial statements.

	Budget amount
Total funding	$ 472,660
Capital budget	(162,350)
Operating budget	310,310
Total expenditures	472,660
Less:	
Capital expenses	(162,350)
Total operating expenses	310,310
Annual surplus	$ -

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

17. Financial instruments:

(a) Fair value:

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. Debt sinking funds are reflected on the statement of financial position at fair value. The fair value of long-term debt at March 31, 2012 is $240,665 (2011 - $206,403; 2010 - $179,145).

In evaluating the fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and/or different valuation techniques may have a material effect on the estimated fair value amounts for financial instruments. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(b) Risks associated with financial assets and liabilities:

BC Transit is exposed to financial risks from its financial assets and liabilities. The financial risks include market risk relating to commodity prices, interest rates and foreign exchange risks as well as credit risk and liquidity risk.

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of commodity price risk, interest rate risk, foreign exchange risk and credit risk and is discussed below.

Commodity price risk:

BC Transit is exposed to commodity price risk. Commodity price risk and volatility has a significant impact on BC Transit's fuel costs. Management continually monitors the exposure to commodity price volatility and assesses possible risk mitigation strategies including continuing to buy at rack prices, entering into a physical fixed price agreement to fix all or a portion of fuel prices with a supplier and/or the potential to enter into financial commodity derivative contracts. Management does not have the authority under the British Columbia Transit Act to enter into financial commodity derivative contracts directly. The ability for management to execute physical hedge agreements with suppliers is governed under formal policies and is subject to limits established by the Board of Directors. Management entered into a fixed price physical supply contract during the year fixing certain fuel purchases during fiscal 2013 as described in note 12.

Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate from changes in market interest rates. BC Transit is exposed to interest rate risk to the extent of changes in the prime interest rate. BC Transit may from time to time enter into interest rate swap contracts to manage exposure to interest rates and cash flow risk. No such derivative contracts were entered into during the year.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

17. Financial instruments (continued):

(b) Risks associated with financial assets and liabilities (continued):

Foreign exchange risk:

BC Transit is exposed to currency risk on purchases and loans denominated in the U.S dollar. BC Transit periodically makes commitments to acquire certain capital assets, primarily transit vehicles, from suppliers requiring payment in either US dollars or pounds sterling. These risks are monitored and can be mitigated by management by entering into foreign currency option agreements. There were no such arrangements outstanding as at March 31, 2012.

Sensitivity analysis:

The following table is a sensitivity analysis indicating the impact on net revenue (expenditures) of a change in each type of market risk discussed above. The sensitivity analysis is based on reasonable possible movement within the forecast period, being one year. These assumptions may not be representative of actual movements in these risks and should not be relied upon. Given the volatility in the financial and commodity markets, the actual percentage changes may differ significantly from the outcomes noted below. Each risk is contemplated independent of other risks.

1% change	
Interest rate risk	$ 162
Foreign exchange risk	468

Liquidity risk:

Liquidity risk is the risk that BC Transit will encounter difficulty in meeting obligations associated with financial liabilities as they come due. BC Transit manages liquidity risk through its cash, debt, sinking fund and funding management initiatives. Accounts payable and accrued liabilities are due in the next fiscal year. Maturity of long term debt is disclosed in note 7. Other commitments with future minimum payments are disclosed in note 12.

Credit risk:

It is management's opinion that BC Transit is not exposed to any significant credit risk.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

17. Financial instruments (continued):

(c) Capital disclosures:

BC Transit defines capital as accumulated surplus plus deferred capital contributions. BC Transit receives the majority of these operating and capital funds from Federal, Provincial or from municipal government partners.

BC Transit's objective when managing capital is to meet its current Service Plan initiatives with the current funding available. BC Transit manages its capital structure in conjunction with the Province and makes adjustments to its Service Plan and related budgets based on available government funding. The focus is to ensure that service levels are preserved within the funding restrictions by the Province and municipal partners.

BC Transit is not subject to debt covenants or other restrictions with respect to operating funding. Funding received for designated purposes must be used for the purpose outlined by the funding party. BC Transit has complied with the external restrictions on any external funding provided.

18. Related party transactions:

As a Crown Corporation of the Province, BC Transit and the Province are considered related parties. All transactions between BC Transit and the Province are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions and balances have been disclosed elsewhere in the financial statements.

19. Impact of accounting for Government Transfers in accordance with Section 23.1 of the *Budget Transparency and Accountability Act*:

As noted in the significant accounting policies note 2(a), Section 23.1 of the *Budget Transparency and Accountability Act* and Restricted Contributions Regulation 198/2001 require BC Transit to recognize government transfers for capital assets into revenue on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be fully recognized into revenue. The impact of this difference on the consolidated financial statements of BC Transit is as follows:

April 1, 2010 – increase in accumulated surplus by $908,395, a decrease in deferred capital contributions by $900,095 and a decrease in deferred contributions by $8,300.

Year ended March 31, 2011 – decrease in annual surplus by $41,181.

March 31, 2011 – increase in accumulated surplus by $867,214, a decrease in deferred capital contributions by $860,046 and a decrease in deferred contributions by $7,168.

Year ended March 31, 2012 – decrease in annual surplus by $38,306.

March 31, 2012 – increase in accumulated surplus by $828,908, a decrease in deferred capital contributions by $821,561 and a decrease in deferred contributions by $7,347.

BRITISH COLUMBIA TRANSIT

Notes to Consolidated Financial Statements
(Tabular amounts expressed in thousands of dollars)

Years ended March 31, 2012 and 2011

20. Comparative figures:

Certain of the comparative figures have been reclassified to conform with current year's consolidated financial statement presentation.

81 Appendices

A1 Performance Summary Victoria Regional

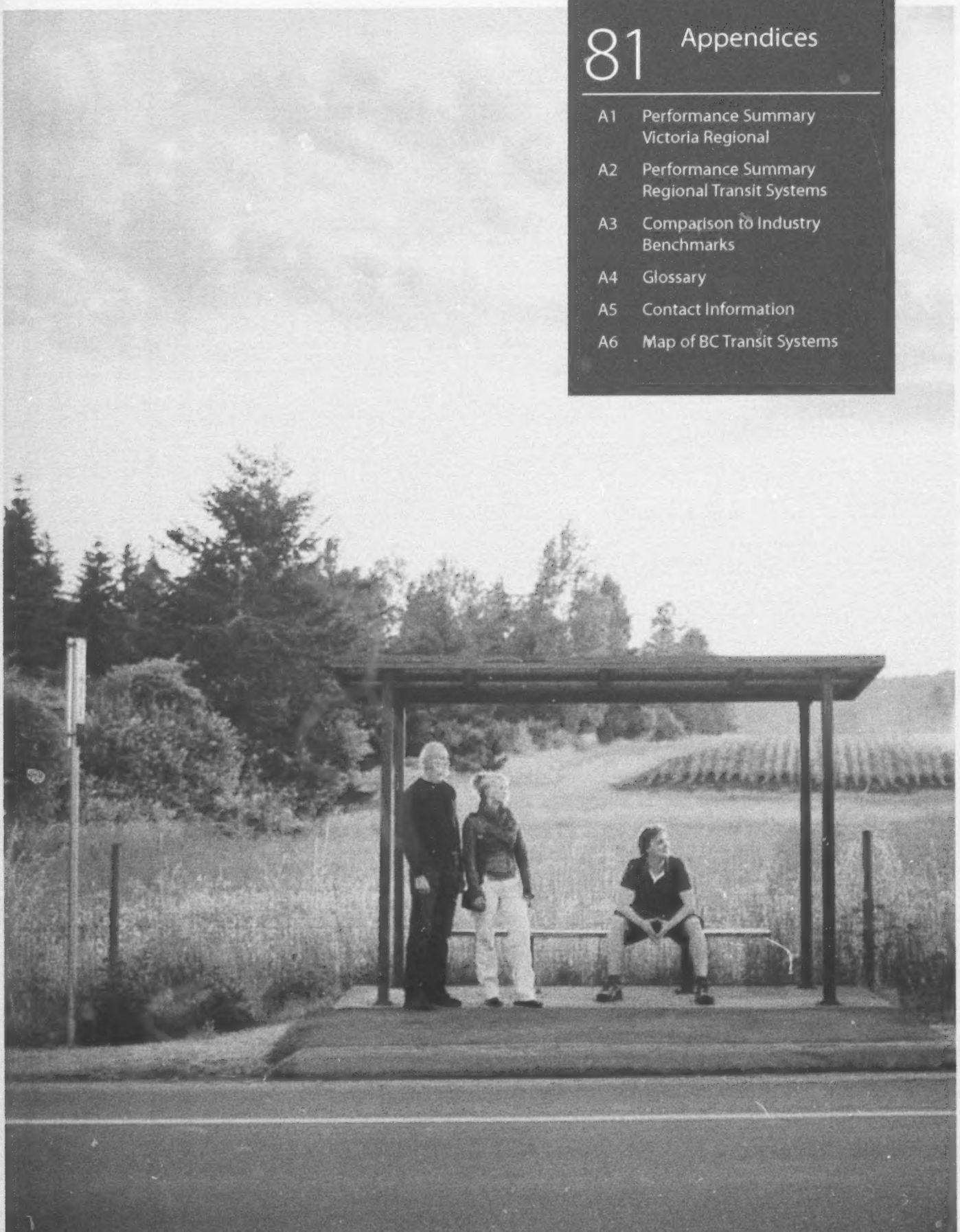
A2 Performance Summary Regional Transit Systems

A3 Comparison to Industry Benchmarks

A4 Glossary

A5 Contact Information

A6 Map of BC Transit Systems



Appendix A1 – Performance Summary Victoria Regional

VICTORIA REGIONAL TRANSIT SYSTEM PERFORMANCE SUMMARY

The results for conventional and custom transit in the Victoria Regional Transit System are presented below.

Victoria Conventional Transit *Service, Effectiveness & Efficiency*	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Corporate Target	2011/12 Variance to Budget	
Service hours (000s)	763	802	797	795	2	0.3%
Passenger trips (000s)	24,456	24,849	24,952	24,341	611	2.5%
Passenger trips per service hour	32.0	31.0	31.3	30.6	0.7	2.3%
Operating cost per service hour	$94.52	$95.08	$101.05	$99.32	($1.72)	(1.7%)
Operating cost per passenger trip	$2.95	$3.07	$3.23	$3.24	$0.02	0.5%

Victoria Custom Transit *Service, Effectiveness & Efficiency*	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Corporate Target	2011/12 Variance to Budget	
Service hours (000s)	115	116	117	118	(1)	(0.8%)
Passenger trips (000s)	392	401	401	405	(4)	(1.0%)
Passenger trips – excl. taxi (000s)	295	298	300	306	(6)	(2.0%)
Passenger trips per service hour – excl. taxi	2.6	2.6	2.6	2.6	(0.0)	(1.1%)
Operating cost per service hour – excl. taxi	$55.88	$59.45	$60.80	$61.73	$0.93	1.5%
Operating cost per passenger trip – excl. taxi	$21.83	$23.14	$23.71	$23.80	$0.09	0.4%

Appendix A2 – Performance Summary Regional Transit Systems

REGIONAL TRANSIT SYSTEMS PERFORMANCE SUMMARY

The results for conventional and custom transit in the Regional Systems were as follows.

Regional Conventional Transit *Service, Effectiveness & Efficiency*	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Corporate Target	2011/12 Variance to Budget	
Service hours (000s)	879	899	907	932	(25)	(2.7%)
Passenger trips (000s)	22,124	24,132	24,304	23,393	911	3.9%
Passenger trips per service hour	25.2	26.8	26.8	25.1	1.7	6.8%
Operating cost per service hour	$90.04	$92.39	$97.29	$99.34	$2.05	2.1%
Operating cost per passenger trip	$3.58	$3.44	$3.63	$3.96	$0.33	8.3%

Regional Custom/Para Transit *Service, Effectiveness & Efficiency – Van*	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Corporate Target	2011/12 Variance to Budget	
Service hours (000s)	329	337	349	362	(13)	(3.6%)
Passenger trips (000s)	1,781	1,823	1,928	1,903	25	1.3%
Passenger trips – excl. taxi (000s)	1,611	1,647	1,747	1,359	388	28.6%
Passenger trips per service hour – excl. taxi	4.9	4.9	5.0	3.8	1.3	33.3%
Operating cost per service hour – excl. taxi	$62.96	$64.53	$67.79	$67.10	($0.69)	(1.0%)
Operating cost per passenger trip – excl. taxi	$12.86	$13.20	$13.54	$17.87	$4.33	24.2%

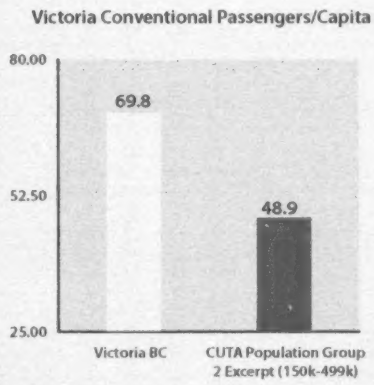
Appendix A3 – Comparison to Industry Benchmarks

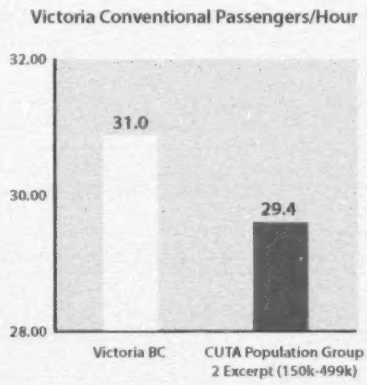
A review of the performance of the Victoria Regional Transit System and Regional Transit Systems elsewhere in the province provided the following summary of comparative results based on figures supplied by the Canadian Urban Transit Association (CUTA).

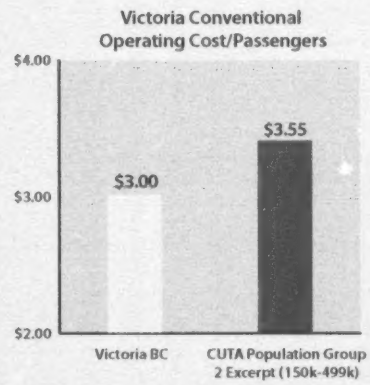
Performance of BC Transit's systems in 2010/11 is also benchmarked against comparable Canadian transit systems using the most recently available data from CUTA for 2010 or 2010/11. The performance ratios selected are the most common measures used by the North American transit industry to gauge and compare service effectiveness and efficiency.

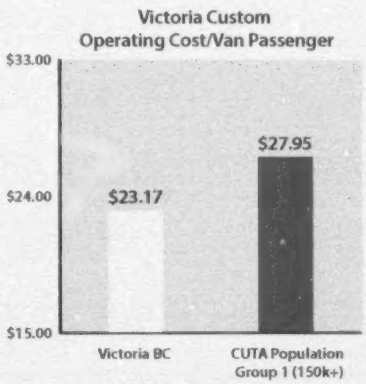
VICTORIA REGIONAL TRANSIT SYSTEM BENCHMARKS

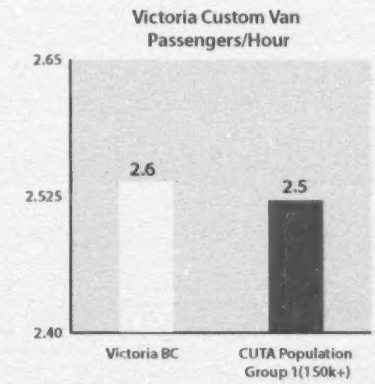
The Victoria Regional Transit System conventional service is compared with similar systems reporting to CUTA (service area population 150,000-499,000). The Victoria custom service is compared with similar systems in the CUTA Specialized Transit Population Group 1 (service area population greater than 150,000).







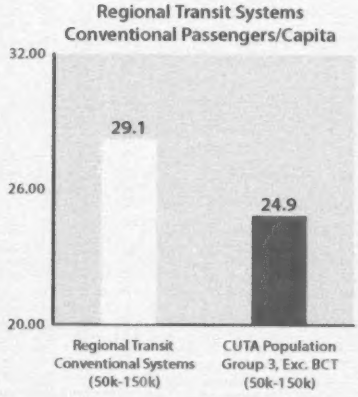


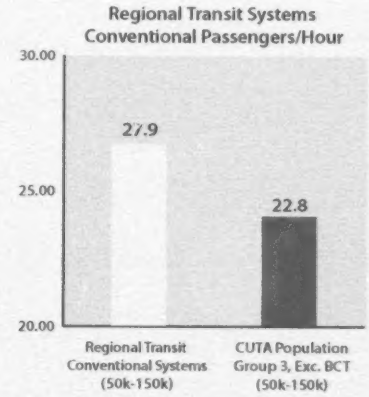


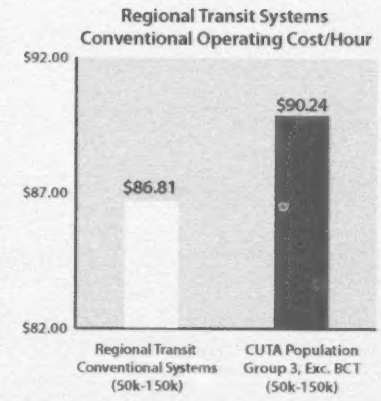
REGIONAL TRANSIT SYSTEMS BENCHMARKS

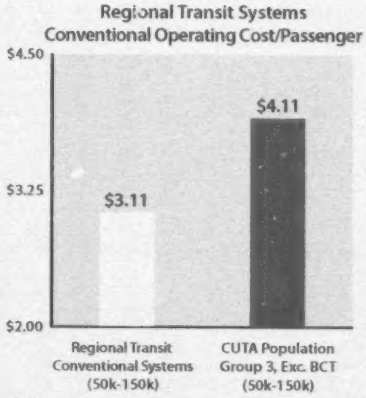
In the case of the Regional Transit Systems, the six largest conventional transit systems are averaged and compared with the CUTA Urban Transit Population Group 3 (service area population 50,000–150,000).

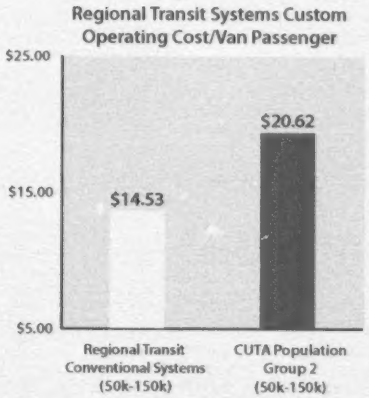
The Regional Transit Systems custom program averages the eight largest systems to compare with the CUTA Specialized Transit Population Group 2 (service area population 50,000-150,000).

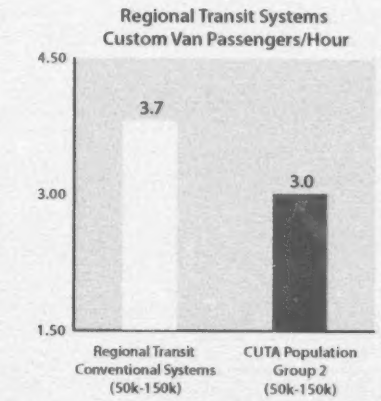












Appendix A4 – Glossary

Accessible buses – Accessible buses are able to accommodate riders who have wheelchairs and some types of scooters. Accessible bus stops are marked with the international wheelchair symbol.

Average fare – Total revenue from passenger fare sources divided by ridership from fare sources.

Biodiesel – Biodiesel is a combination of a clean burning non-toxic biodegradable alternative fuel combined, at any percentage, with diesel to be used in diesel engines. The biofuel component is produced from renewable sources such as vegetable oil and animal fats. Minimum renewable fuel content in fuels was regulated in British Columbia through the Renewable and Low Carbon Fuel Requirements Regulation (December 2009)

The renewable fuel requirement for diesel is being phased in with a three per cent target for 2010, four per cent for 2011 and five per cent by 2012.

Canadian Urban Transit Association – CUTA is the association for providers of urban transit services and the voice of the public transit industry in Canada.

Capital costs – Total funds used by a company to acquire or upgrade capital assets such as fleet, facilities and equipment.

CO2e – Carbon dioxide equivalent - means the mass of carbon dioxide that would produce the same global warming impact as a given amount of another greenhouse gas, as determined using the 100 year time horizon global warming potential set out in column 4 of the schedule of the Carbon Neutral Government Regulation.

Community Bus – Minibuses on fixed routes used to efficiently serve lower density/suburban markets and feed the mainline bus networks.

Componentization – Componentization is where an asset is broken down into its major components that have significantly different useful lives.

Conventional transit – Serves the general population in urban settings using mid-sized, large or double-deck buses. The buses are accessible and low-floor and run on fixed routes and fixed schedules.

Custom transit – Employs vans and minibuses and taxis for dial-a-ride and door-to-door handyDART service for passengers with disabilities who cannot use conventional transit.

Cost-sharing agreement – An agreement between BC Transit and the municipality for the provision of transit service or the development of a transit study.

Double-deck bus – BC Transit's low floor double-deck buses are 12 metres (40 feet) long, 2.5 metres (eight feet) wide, and 4.3 metres (14 feet) tall. Compared to a single deck, 12-metre bus, the double-deck bus provides a 120 per cent increase in seated carrying capacity.

Effectiveness – A measure of the ability of the transit system to carry out the required services.

Feasibility study – A study performed by BC Transit to determine if there is sufficient demand for a transit system and a business case to warrant local funding.

handyDART – Custom door-to-door service for those passengers who cannot use conventional transit due to a disability. Riders must be registered with the handyDART office before they can use the service. Also known as custom transit, handyDART stands for handy Dial-a-Ride-Transit.

Hybrid vehicle – A vehicle that uses two or more distinct power or fuel sources. The term most commonly refers to a hybrid electric vehicle which combines an internal combustion engine and an electric motor powered by batteries.

Hydrogen fuel cell – An electrochemical energy conversion device that uses hydrogen gas to produce electricity, water and heat. It operates much like a battery but does not require recharging. If sufficient hydrogen fuel is available it can generate electricity almost indefinitely.

Low floor bus – Designed for easy boarding so the entire floor is close to the pavement with no entry steps. For passengers who use walkers, crutches or who have difficulty stepping up, all low floor buses have a kneeling feature that lowers the entry level even further and provides a ramp for wheelchair and scooter access. Low floor buses also enable easier boarding for all passengers, including parents with strollers.

Mode – A form of travel, e.g., transit, pedestrian, bicycle, automobile, or mixed mode such as bicycle and transit.

Municipality – For the purpose of agreements under the *British Columbia Transit Act*, municipalities are defined as cities, townships, villages, or regional districts, or a combination of these, involved in the operation, funding or feasibility assessment of a transit system. Also referred to in this document as "local governments."

Operating cost – The sum of all costs associated with the operation, maintenance and administration of the transit system during a specified period excluding depreciation and interest paid on loans for capital outlays.

Operating cost recovery – Reflects annual operating revenue divided by total operating cost. This ratio indicates the proportion of costs recovered from operating revenue. Fares are established by the local partners. A strong cost recovery is desirable, as it reduces the subsidy from the taxpayer. This factor, however, is a municipal policy decision.

Operating cost per service hour – Reflects annual operating cost divided by annual total service hours. The ratio also reflects efficiency. Increasing cost per hour indicates operating costs are increasing faster than service hours.

Operating cost per passenger trip – Reflects annual operating cost divided by annual passenger trips carried. This ratio indicates the efficiency of transit expenditures directed toward passengers carried. Consistent or decreasing cost per passenger trip indicates that ridership is growing faster than costs.

Operating company – The company selected to operate the transit system under the terms of the

Transit Service Agreement and the Annual Operating Agreement.

Paratransit – Serves small town and rural B.C. as well as some suburban areas using minibuses, taxis and vans for a flexible routing and schedules.

Passenger trips per service hour – Reflect annual passenger trips divided by annual total service hours. This ratio is a primary measure of the effectiveness of the service provided. The ratio improves with higher ridership, lower average trip lengths, or higher average speeds.

Per capita – Estimates use population figures from the most recently published census, adjusted annually by B.C. Statistics and collated for the respective Transit Service Area by BC Transit.

Performance measures – Are statistical ratios combining system outputs, and transit service area statistics to benchmark performance within the industry and operational trends over time.

Peak period (or Hours) – That period of time during a typical weekday in which the maximum amount of travel occurs. Usually a morning and evening peak are observed as a result of work and school related trips. The opposite of peak period is base or off peak period.

Passenger trips – Represent trips made by transit riders who have made one fare payment to use the transit service. (Passengers who use a transfer and board more than one bus to complete a trip are only counted once).

Passenger trips per capita – Reflect annual passenger trips carried divided by regional population. This is a measure of market share and effectiveness in services that transit markets.

Rack prices – The price which refineries sell petroleum products excluding transportation, overhead and profits.

Rapid transit – Rapid transit is a transit system route designed to improve travel time, reliability, passenger comfort and convenience along a corridor that may provide transit priority measures or an exclusive transit only right-of-way. It provides high-frequency service (every 5-10 minutes) all day, every day.

Service hours – Represent the total number of hours that the transit fleet is in regular passenger service.

SMARTTool – The web-based tool developed, owned and hosted by Shared Services BC, the Ministry of Labour, Citizens' Services and Open Government and used for estimating and reporting on greenhouse gas emissions.

Statistics – Include operational outputs and transit service area statistics. These factors, when used in a ratio indicate commonly compared industry standard performance measures.

Taxi saver program – "Taxi Saver" is the name of a discounted coupon program which provides registered handyDART clients with taxi coupons at half price, in participating communities.

Tier 1 – A conventional transit system whose service area population is over 50,000.

Total revenue – Includes passenger and advertising revenue. It excludes property tax and fuel tax revenue.

U-PASS – Universal bus pass at participating post-secondary institutions where all students at the institution pay a discounted fee for a bus pass through their Student Union.

Appendix A5 – Contact Information

BC TRANSIT SENIOR LEADERSHIP TEAM

Manuel Achadinha, President and CEO

Mike Davis, Vice President, Operations and COO

Michael Kohl, Vice President, Finance and CFO

Brian Anderson, Vice President, Business Development and CIO

Aaron Lamb, Executive Director, Asset Management

CONTACT INFORMATION

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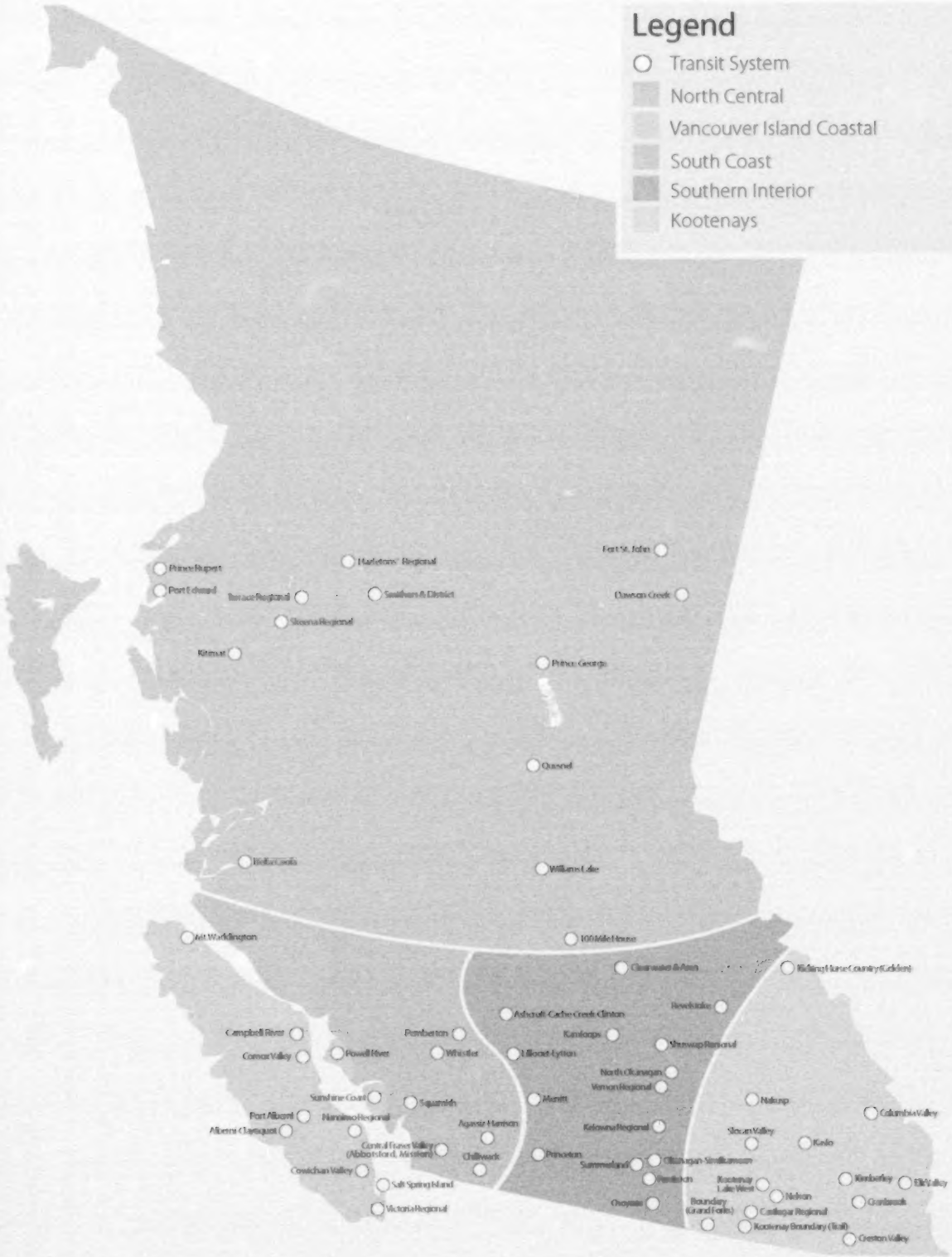
BC Transit's Annual Reports are available on BC Transit's website at www.bctransit.com.

Appendix A6 – Map of BC Transit Systems



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